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# PLM

PLM  
Group  
2001

Annual  
Report to  
Shareholders

















# Annual Report to SHAREHOLDERS

For the year ended December 31, 2001

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# Financial HIGHLIGHTS

For the year ended December 31

|                                                     | 2001 | 2000 | % Change |
|-----------------------------------------------------|------|------|----------|
| <b>OPERATING RESULTS FROM CONTINUING OPERATIONS</b> |      |      |          |

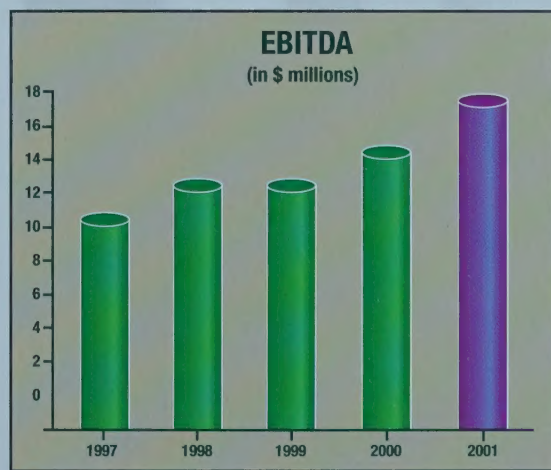
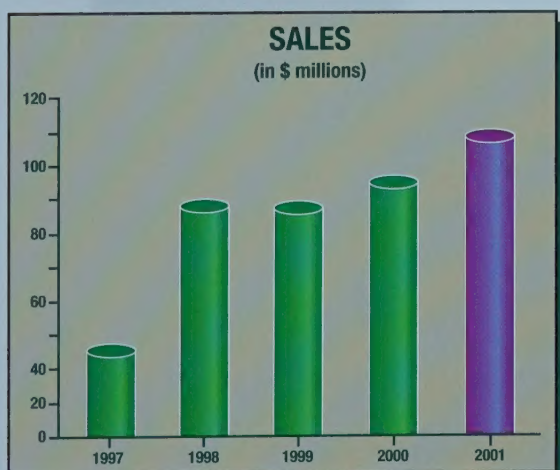
|                                         |               |              |       |
|-----------------------------------------|---------------|--------------|-------|
| Sales                                   | \$106,894,000 | \$92,570,000 | 15.5% |
| EBITDA                                  | \$16,637,000  | \$13,896,000 | 19.7% |
| Net earnings from continuing operations | \$5,511,000   | \$2,804,000  | 96.5% |
| Cash flow                               | \$16,666,000  | \$10,521,000 | 58.4% |

## FINANCIAL POSITION

|                      |              |              |        |
|----------------------|--------------|--------------|--------|
| Working capital      | \$2,171,000  | \$3,879,000  | -44.0% |
| Capital Assets       | \$45,014,000 | \$48,174,000 | -6.6%  |
| Total Assets         | \$78,643,000 | \$82,511,000 | -4.7%  |
| Long-term debt       | \$22,255,000 | \$25,992,000 | -14.4% |
| Shareholders' Equity | \$21,060,000 | \$17,598,000 | 19.7%  |

## PER SHARE DATA (basic and diluted)

|                                       |          |          |         |
|---------------------------------------|----------|----------|---------|
| Earnings from continuing operations   | 19 cents | 10 cents | 190.00% |
| Cash flows from continuing operations | 58 cents | 37 cents | 156.76% |





# Fellow SHAREHOLDERS

2001 was a year of profoundly positive change at PLM. During the year, we repaid \$5.1 million in long-term debt, and \$5.6 million in bank debt. Combined with lower interest rates, this resulted in a reduction in cash interest cost to the Company of \$0.5 million in 2001 compared to 2000.

**B**eyond debt reduction, we consolidated five operating facilities into one modern campus that will serve our long-term capacity needs in a very efficient fashion. At a very respectable cost, we acquired equipment to better serve our customers.

Most fundamentally, PLM delivered record financial results, despite the rapid deterioration in economic conditions through the latter half of the year – and in spite of the significant upheaval involved in relocating tons of production equipment and 255 employees to our new campus.

On record revenue of \$107 million, we generated net income of \$3.5 million (12 cents per share). This represented year-over-year sales growth of 15.5% and a 520% increase in net income.

Net income in 2001 included the following non-recurring items:

- A non-recurring gain of \$0.5 million from the sale of a purchase option PLM held to acquire a building that it did not require.
- A one-time reduction of \$1 million in future

income taxes resulting from a reduction by the Government of Ontario in the estimated tax rate at which these taxes will be paid. (This change was made in accordance with recent recommendations issued by the Canadian Institute of Chartered Accountants.)

- Losses from discontinued operations in the amount of \$2 million reflecting the operating losses from recently discontinued operations at the Company's Cincinnati operation (see below).

Results from continuing operations (after the elimination of the discontinued operations of PLM America) were even more dramatic, with net income of \$5.5 million, virtually double the earnings from continuing operations in fiscal 2000.

## 2001 OPERATING RESULTS IN PERSPECTIVE

Although it is both required and appropriate to include the results of one-time gains in the net income of the Company, it is important to look past these non-recurring items.



## PLM GROUP 2001 ANNUAL REPORT TO SHAREHOLDERS

*Standing from left:*

*Dave Stuart, President and Chief  
Operating Officer,*

*Peter Bradley, Chief Financial Officer.*

*Seated:*

*Barry Pike, Chairman and  
Chief Executive Officer.*



After eliminating the one-time items from the results of 2001 and 2000, here are the key items:

Sales increased 15.5% in the year to  
\$107 million

Net income increased 50% to \$4 million  
from \$2.7 million in 2000

Earnings per share increased to 14 cents  
from 9.4 cents for 2000

EBITDA increased 20% to \$17 million  
from \$14 million in 2000

These results are impressive indeed.

Measured on the basis of "continuing operations" since 1998, PLM's growth has been dramatic with sales growing from \$85 million in 1999 to \$107 in 2001 (a compounded growth of over 7% per annum), net income growing from \$1 million to \$4 million and EBITDA advancing from \$11.6 million to \$17 million in the same three year period. What makes this even more impressive is that this growth was organically fuelled, not the result of acquisitions, and it was accomplished during a period of major re-equipping and consolidation.

In no uncertain terms, these profoundly satisfying results reflected the diligently applied strategy of improvement adopted in 1999 by this organization.

This strategy dedicated PLM to one over-arching goal: broaden and deepen relationships with customers by delivering the service, capabilities,

technology and knowledge required to bring innovative communication materials to market quickly and cost effectively.

When we identified this strategy and its component tactics (fill gaps in our technologies; add to capacity the most modern equipment in the industry; consolidate facilities) we knew that by employing it, PLM would change profoundly. What we did not know at the time was how profoundly our marketplace would also change.

### THE NICHE OPPORTUNITY

Today, PLM is the only Canadian company of any magnitude in our industry to concentrate solely on the traditional commercial print requirements of customers. While we have invested to enhance our core capabilities, other long-time competitors have pursued diversification strategies that have taken them away from their roots. At the same time, a few unfortunate others have ceased to exist entirely, sinking into bankruptcy after weighing themselves down with unserviceable debt levels.

This has created an opportunity for growth and prosperity for PLM as a sharply focused, operationally well-fortified organization with a strong balance sheet. We intend to capitalize on this opportunity in the years ahead by exploiting the additional financial flexibility we are gaining by reducing our debt (debt to equity at year end stood at 51:49, versus 62:38 a year earlier) while always remaining true to our principles.



# PLM GROUP 2001 ANNUAL REPORT TO SHAREHOLDERS

## OUR PRINCIPLES

Our principles are: a total focus on customer needs; application of the best, most appropriate technology to meet those needs; and creation and maintenance of a quality working environment that attracts and retains the best people in our industry.

In 2001, indeed in each of the 14 years PLM has been in business, we can unequivocally say that we have acted in a principled way in conducting

This is not meant to take on a sanctimonious tone. Like every other company, PLM is not perfect and we do make mistakes. One that we corrected subsequent to year-end was the decision in 1998 to acquire a small Cincinnati-based fulfillment operation. While the rationale for this purchase was sound, the management team we inherited at the time of the acquisition was not. As a result, this operation acted as a drag on earnings. To achieve future profitability, new management had to refocus the business on activities that were not



business and this is the key to our success as a company. It's why we have a well-tenured workforce, and why we enjoy a high degree of customer loyalty and affinity.

In today's environment where the term 'financial engineering' has taken on even more sinister meaning, shareholders should find comfort in the fact that PLM has a strong character – and what you see on our financial statements is what you get: everything is by the book. As a company, we do not believe in high-flying accounting practices or highly leveraged acquisitions which do nothing to enhance long-term value or further our customer relationships.

synergistic to our core operations. Consequently, we felt the most logical course of action was to facilitate a management buy-out. This was accomplished effective January 1, 2002.

The transaction was done in a manner that allowed PLM to achieve book value for its assets, plus a minority interest in the ongoing enterprise – now called Cinopac. We believe Cinopac will thrive under current management, thus giving PLM a small equity interest in a going concern, and a partner who can help to further our objectives in the Ohio market, at no risk.

That we have effectively exited our Cincinnati location is not an indication that we have



abandoned our long-term plan of adding U.S. customers to our portfolio. On the contrary, we still believe we can grow in the United States, but this will take time, patience and the application of 'lessons learned' in the past couple of years.

#### **FOCUSED DIVERSIFICATION**

Today, PLM is sharply focused on its core business, but at the same time, enjoys the strength that comes from having well-diversified customer relationships. PLM serves more than 300 customers representing

These are heartening statistics, that we are very proud to report.

One of PLM's objectives is to continue deriving a significant percentage of revenue from repeat customers and to complement this by making inroads with new accounts. This requires us to maintain our customer-first attitude, to be aggressive in pursuit of the 'right' assignments, and to ensure that we equip our staff with the tools to complete each job on time, on budget, and to the quality expectations of our customers.



the who's who of industries such as financial services, consumer products, pharmaceuticals and advertising.

Our approach in the past, and indeed moving forward, is to become more deeply entrenched as a key supplier to high quality customers – the kind that we serve now. This means offering more integrated print-based solutions which these customers find essential.

The measure of how entrenched PLM has become is to look at business volumes from satisfied 'repeat' customers. In 2001, business from our top 10 accounts grew in excess of 54% with 90% of our business coming from repeat customers.

#### **CAPACITY FOR THE FUTURE**

Over the past three years, PLM has invested \$12 million in modern, new equipment – including \$3.5 million invested in 2001 in such items as new bindery equipment, a Heidelberg 6 colour press and new Xerox imaging technology. Our equipment portfolio is, in our estimation, second to none and includes comprehensive pre-press, sheet-fed, web, bindery, mail preparation, high-speed laser and ink-jet personalization machines, each with advanced systems to ensure rapid output and high quality.

We currently have the capacity to produce upwards of \$130 million in sales without adding materially to our equipment portfolio.



# PLM GROUP 2001 ANNUAL REPORT TO SHAREHOLDERS

## IMPACT OF DIGITAL TECHNOLOGY

Every aspect of our business has been impacted by the rapid expansion of digital technology. Over the past four years, PLM has been at the forefront of these developments in order to provide the best technology solutions for the changing needs of our customers. Today, PLM sports one of the most advanced information technology infrastructures in our industry, which we believe gives us a distinct competitive advantage in serving customer needs – and in better managing our business. Information technology is a tool that we use to better ourselves internally and externally and as set out on pages 8 – 19, we believe that the future growth of our business will likely be driven by the integrated digital capabilities we can offer our customers throughout the production process. To address this, we are continuing to invest in new digital technology as well as creating our own technology solutions to provide real time production information to our customers, allowing them to maximize their efficiency and reduce their cost of doing business.

Due to the modern equipment we possess today, we believe our capex run rate in 2002 will be under \$3 million, versus an annual average of over \$4 million between 1999 and 2001.

With our equipment portfolio and over 330 experienced and dedicated employees, we can effectively and creatively produce and deliver everything from a short run, personalized, targeted direct mail piece to a 300 page mutual fund report mailed to thousands of unitholders.

We are extremely proud of our equipment portfolio, but prouder still of our employees, who continued to demonstrate in 2001 that they are the best in the industry – and among the most productive. Pictures speak louder than words so we have included pictures of many of our employees on the inside covers of this report. While PLM is a large company, it was built on the principles of empowerment and recognition of the individual worth of our employees; principles we hold true to today and for the future.

## AGENDA AND OUTLOOK

PLM will operate – for the first time in three years – on a business as usual basis. There will be no self-imposed hurdles to cross, such as the building consolidation this past year or the equipment assimilation of the past three. There is however, one hurdle over which we have no control: the economy.

At the time of writing, the short-term economic outlook appears brighter, but we have yet to see a full-blown recovery. This makes us somewhat cautious in our performance expectations. Even though we are not highly susceptible to economic shifts, there is no question that PLM performs better when our clients are feeling more confident about their prospects. Through much of 2001, this confidence level was sorely lacking, but now appears to be slowly improving.

As a consequence, we believe PLM's profitability trend that began well over a year ago should continue in 2002. Our bottom line performance will be enhanced, of course, by lower financing charges resulting from the reduction of debt. We are not counting, however, on higher sales volumes in the first half of 2002.

In total, we look forward to working under more normal conditions and to seeing our progress reflected in higher share values. We have removed many of the 'structural' impediments to a higher share price by reducing debt and improving financial performance. Additionally, we have demonstrated our long-term belief in the value of PLM's shares by undertaking a share re-purchase plan. Under terms of a normal course issuer bid, we can purchase and cancel up to 1,375,000 of our common shares, or 5% of our float, during the year ending February 27, 2003.

With recent events in the high tech industry, we are all too familiar with the vagaries and volatility of the stock market. However, it must be acknowledged that our share price, as set by the market, does not reflect the true value of this Company. Our strategy is to continue to focus on our market segment and devote our collective





energies to achieve sustained growth in profitability and, by doing so, force the market to more accurately reflect our worth. Share price is not the only barometer of our success, as witnessed by many companies that have tied their operational strategy too closely to the need for short-term returns. We believe that the better course is to take the lessons of short-term economic fluctuations and to use them to make informed business and investment decisions that will drive the value of the business upward over the mid to long term.

Now that PLM has accomplished what it set out to do three years ago, and is demonstrating operating results consistent to its pre-expansion days, we intend to plot a longer-term strategic course of action that will allow us to enhance our competitive advantage and capitalize on the scope of our operations.

However, you can rest assured that while our scope has changed significantly, one thing has not: our character. We intend to continue operating in a principled, customer-focused fashion as a financially strong company. You have our word on it.

Thank you to our shareholders, customers, employees and suppliers for your support and for making the profound change of the past year possible.

Yours sincerely,

Barry N. Pike  
Chairman of the Board and  
Chief Executive Officer

David Stuart  
President and  
Chief Operating Officer

April 19, 2002



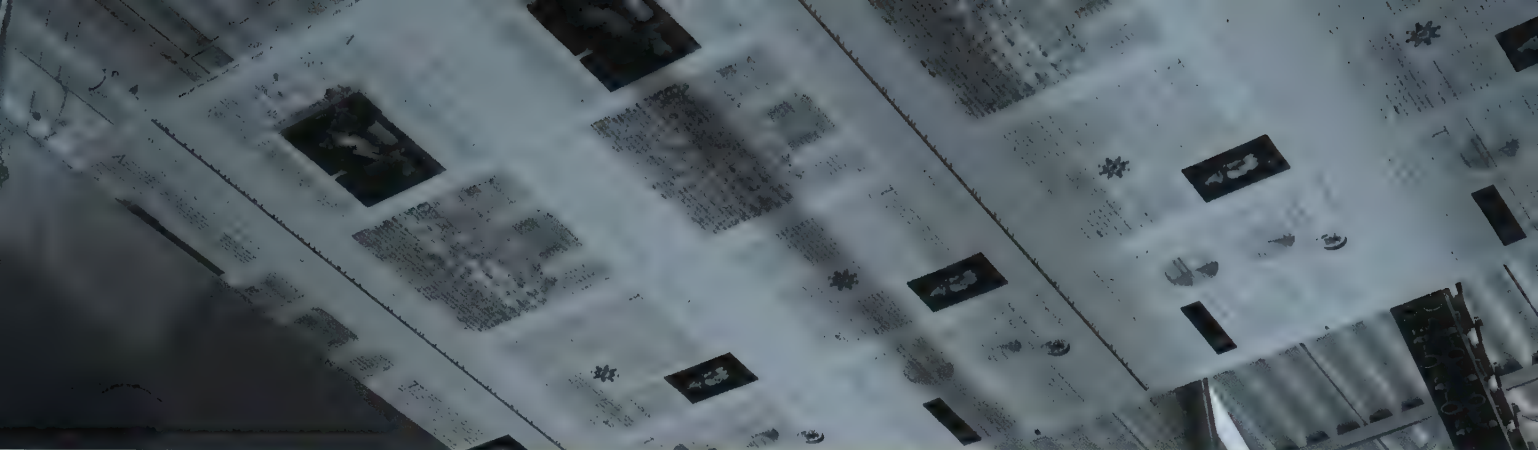
# Introducing

# THE PREFERRED

CHOICE







## For many of North America's largest companies, PLM has long been a preferred choice supplier. Why?

From its inception, PLM made an enduring commitment to build a customer-focused organization dedicated to delivering high impact marketing material. By combining the best that print technology can offer with skilled and knowledgeable people, PLM has developed a loyal customer following among many of North America's top marketers.

Today, PLM is building even stronger market alliances by integrating state-of-the-art digital technology throughout its operations. These technologies, combined with proprietary software, are a major competitive advantage for PLM. Armed with these technologies, we give our clients the opportunity to align themselves with a supplier who can deliver the efficiencies and product innovations associated with digital integration.

More specifically, our new capabilities enable us to:

-  significantly enhance response rates from marketing campaigns
-  shorten lead times from creative to fulfillment
-  re-purpose client creative – across multiple production platforms – to more effectively leverage their investments in photography and design

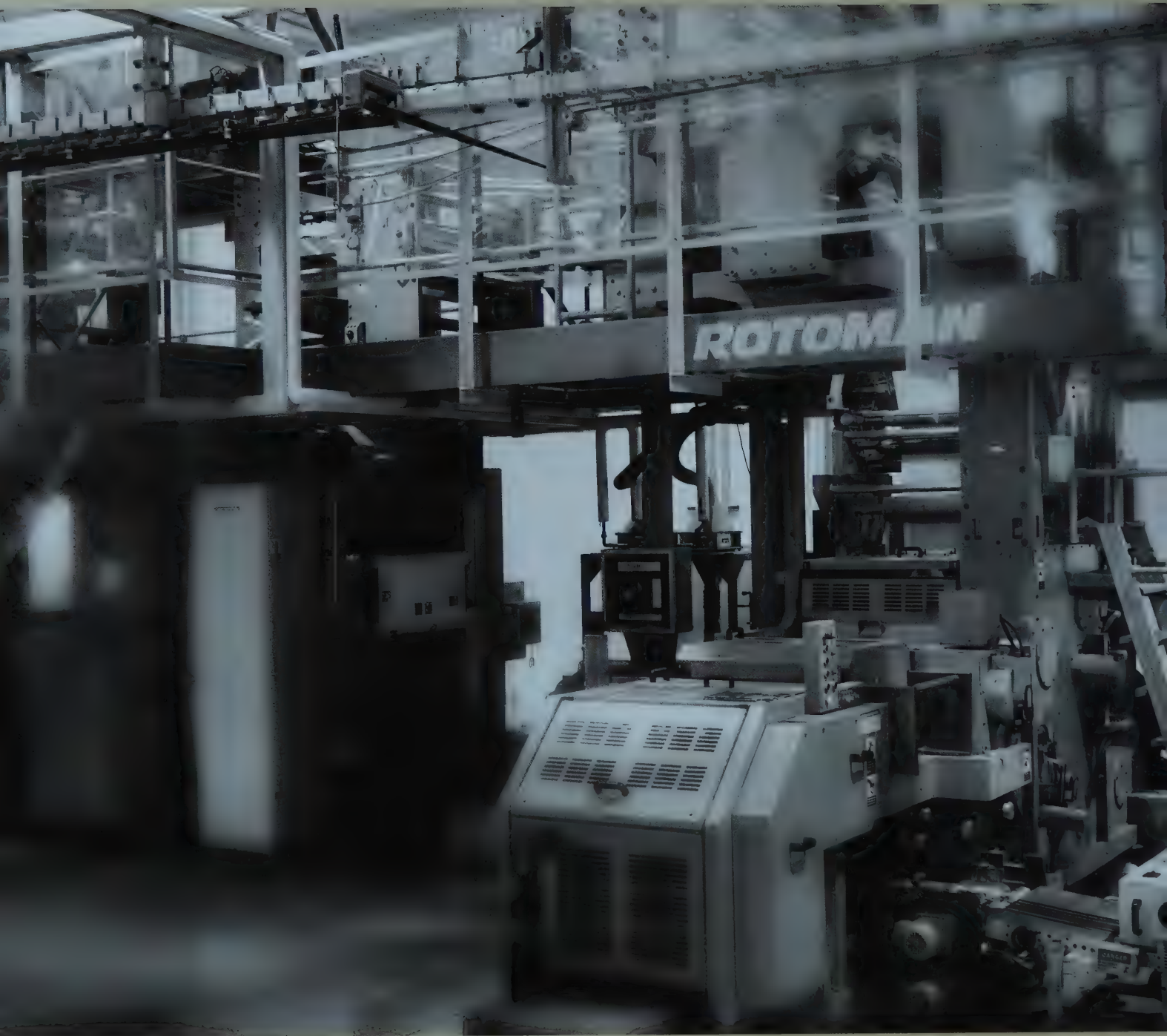
The rapid development of new digital technologies and platforms is quickly revolutionizing our industry. The resulting demand for our digital services – from connectivity through to workflow management and variable digital imaging – represents a substantial growth opportunity for us as we advance our innovative, seamless workflow solutions.

PLM is well positioned to capitalize on this opportunity. Over the past few years we have developed the digital infrastructure required to build on our supplier of choice strategy as we work to bring a fully integrated product offering to our niche markets.

PLM will be The Preferred Choice of the future because we have combined the best people with the latest in digital technologies.



# The Digital REVOLUTION





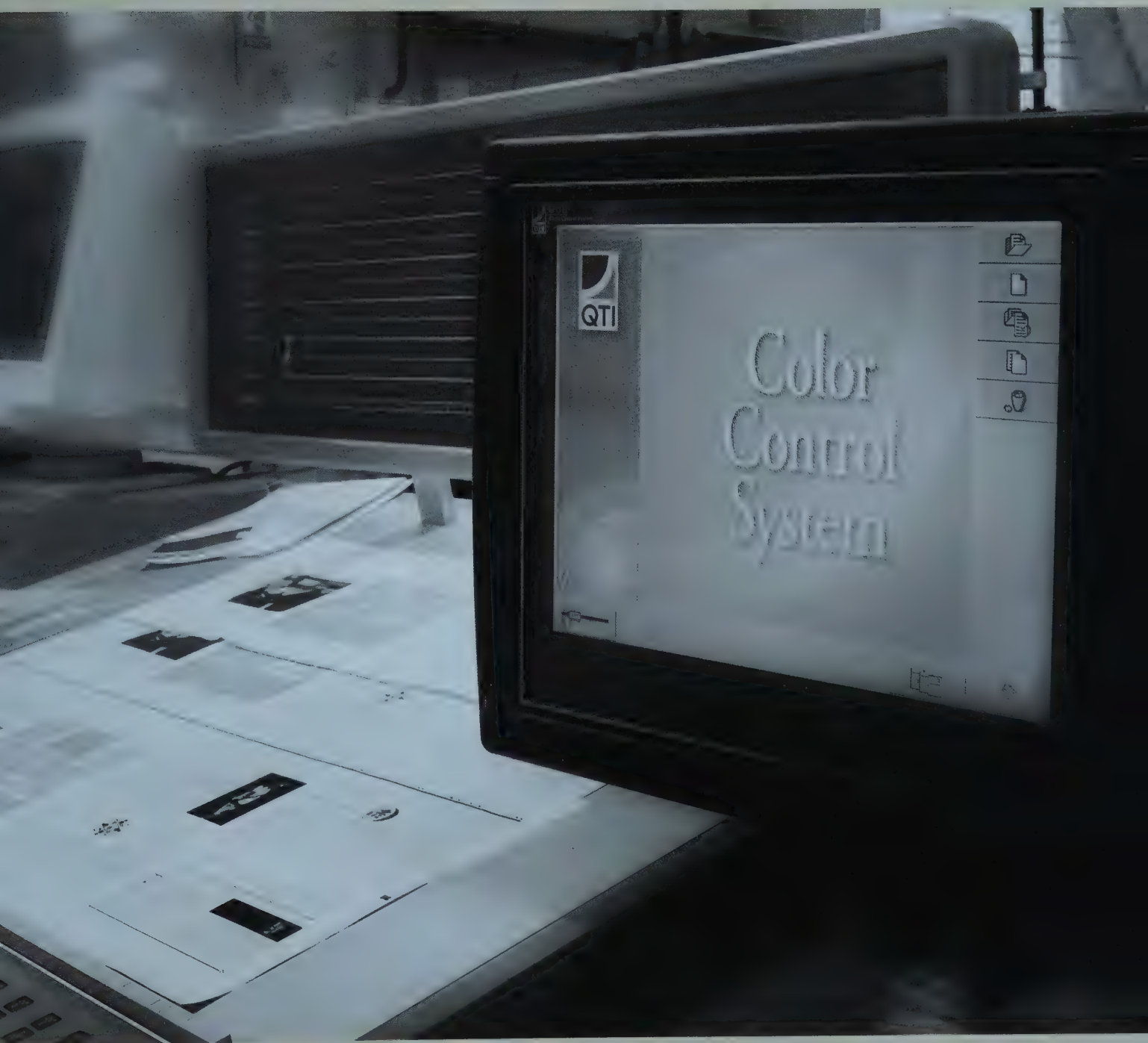
## HOW PLM IS REVOLUTIONIZING CUSTOMER SERVICE.

*We have built an automated, digital environment that provides customers with substantial competitive advantages.*

PLM has not just added technology tools. It has built a technology environment that is both automated and fully digital. From pre-press to product delivery, we are integrating the latest

innovations in computer-to-plate and production colour control systems to digitize our workflows. This has allowed us to become far more productive on behalf of customers by shortening the manufacturing window, increasing quality and enabling greater customer control over the entire process.

The digitization of our manufacturing workflows is a key strategic focus for PLM because it takes us far beyond the status of supplier and makes us a true solution provider for customers.





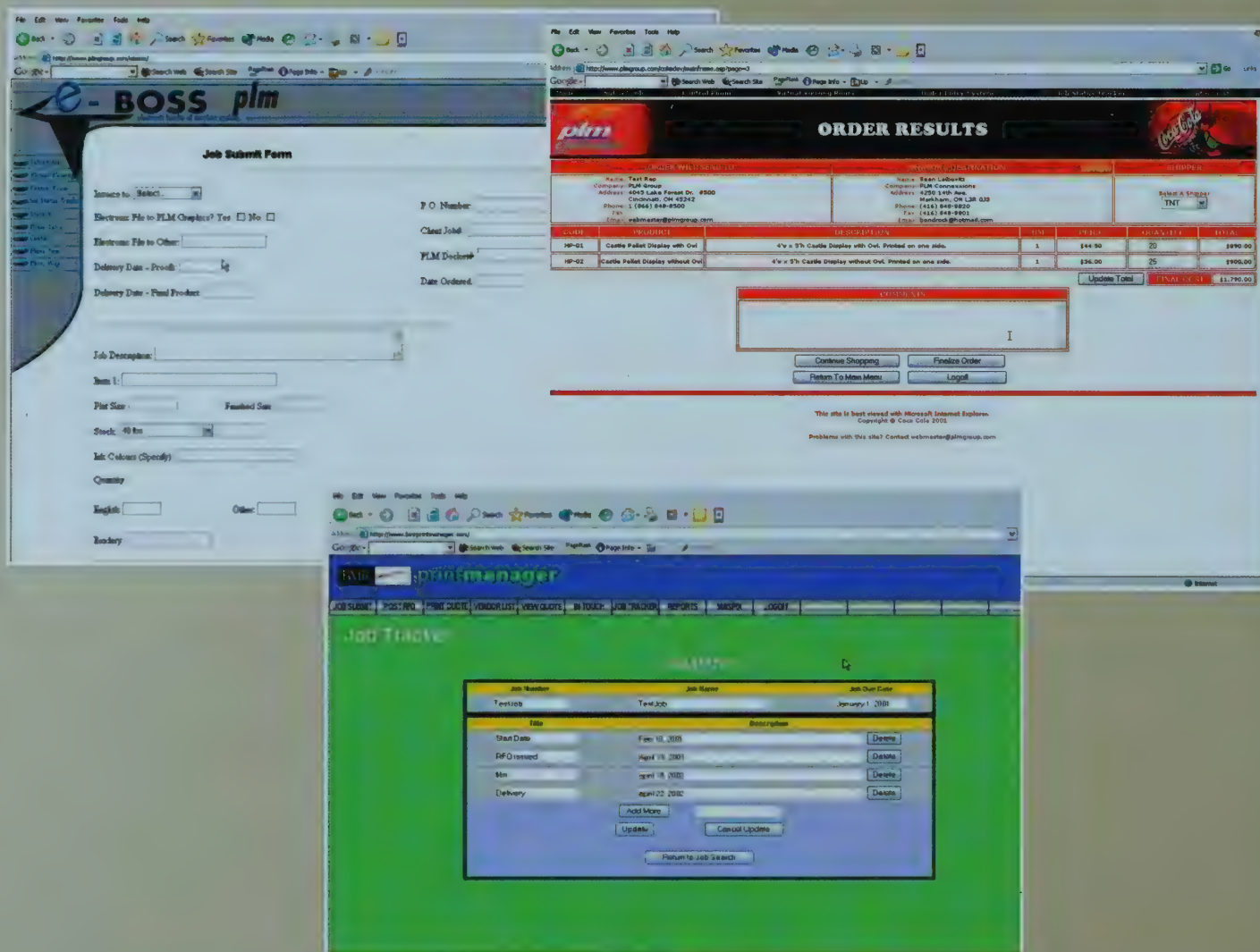
# The Digital

# REVOLUTION

To meet customer needs, we now conduct a significant amount of our day-to-day business via the Internet. This goes beyond simple email. Through our in-house Internet service provider, we have built proprietary web-based solutions for inventory management and order entry that enable print-based fulfillment solutions. As just one example, we have built a custom client interface that enables one of our large customers

to enter, process and track an order through to delivery confirmation.

Taking full advantage of the latest developments in technology, we use portable document format (PDF) files, which are device independent, to move files across multiple platforms and to deliver innovative process innovations such as remote proofing.



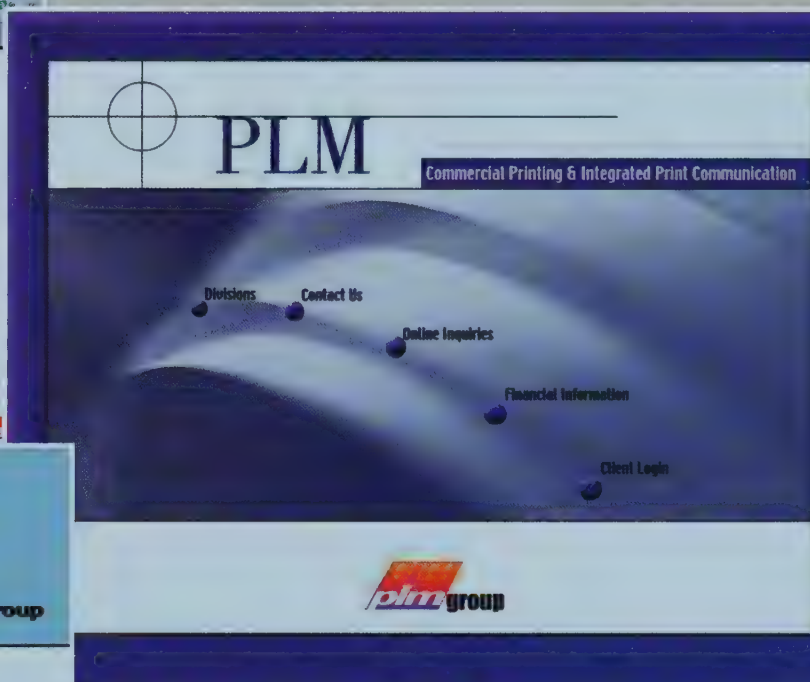
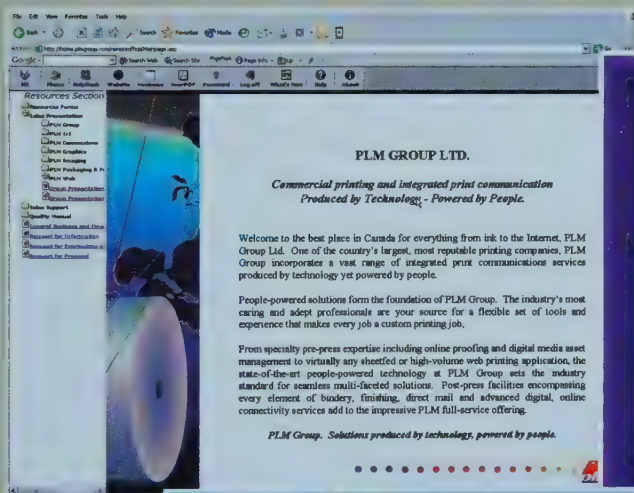


## HOW PLM IS REVOLUTIONIZING CUSTOMER SERVICE.

*We are using the Internet to deliver real-time information.*

Moreover, our ability to interface with, and accommodate, the special requirements of e-procurement models allows our customers to make an easy business transition to outsourcing. With "In Touch", a wireless communication solution, PLM developed an Internet-based communication tool to enhance customer communications; with it, we can now also offer instantaneous project updates. Through this new

real-time tool, creative, project management and production personnel on the client side can remain in constant contact with their counterparts at PLM – accessing critical job information without ever leaving their offices, homes or vehicles. With this new tool we deliver timely and accurate information to all parties at the touch of a button.





# The Digital REVOLUTION

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## HOW PLM IS REVOLUTIONIZING CUSTOMER SERVICE.

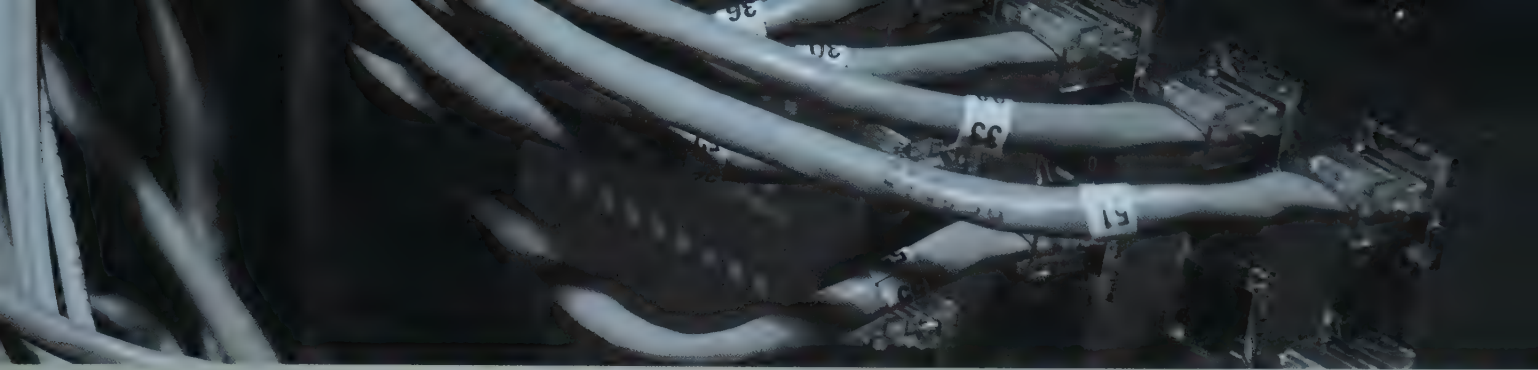
*We give customers more control over their digital assets.*

As a natural extension of our pre-press capabilities, we now offer digital photography and digital asset management as part of our core product capabilities. Indeed, we provide the ultimate output flexibility by allowing digital assets to be re-purposed for output across multiple platforms including the Internet, computer-to-plate and even variable colour imaging.

The increasing need to connect with our customers at an earlier stage of a project's life-cycle is also driving the development of new products and capabilities. The breadth of our services has now migrated from traditional pre-press solutions to include every aspect of pre-media production. Through different production platforms, we now manage customer data and digital assets and are currently developing value-added services that will allow us to maximize every aspect of personalization and digital colour imaging, thus expanding our services from a production only platform to a marketing and sales platform.







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## HOW PLM IS REVOLUTIONIZING CUSTOMER SERVICE.

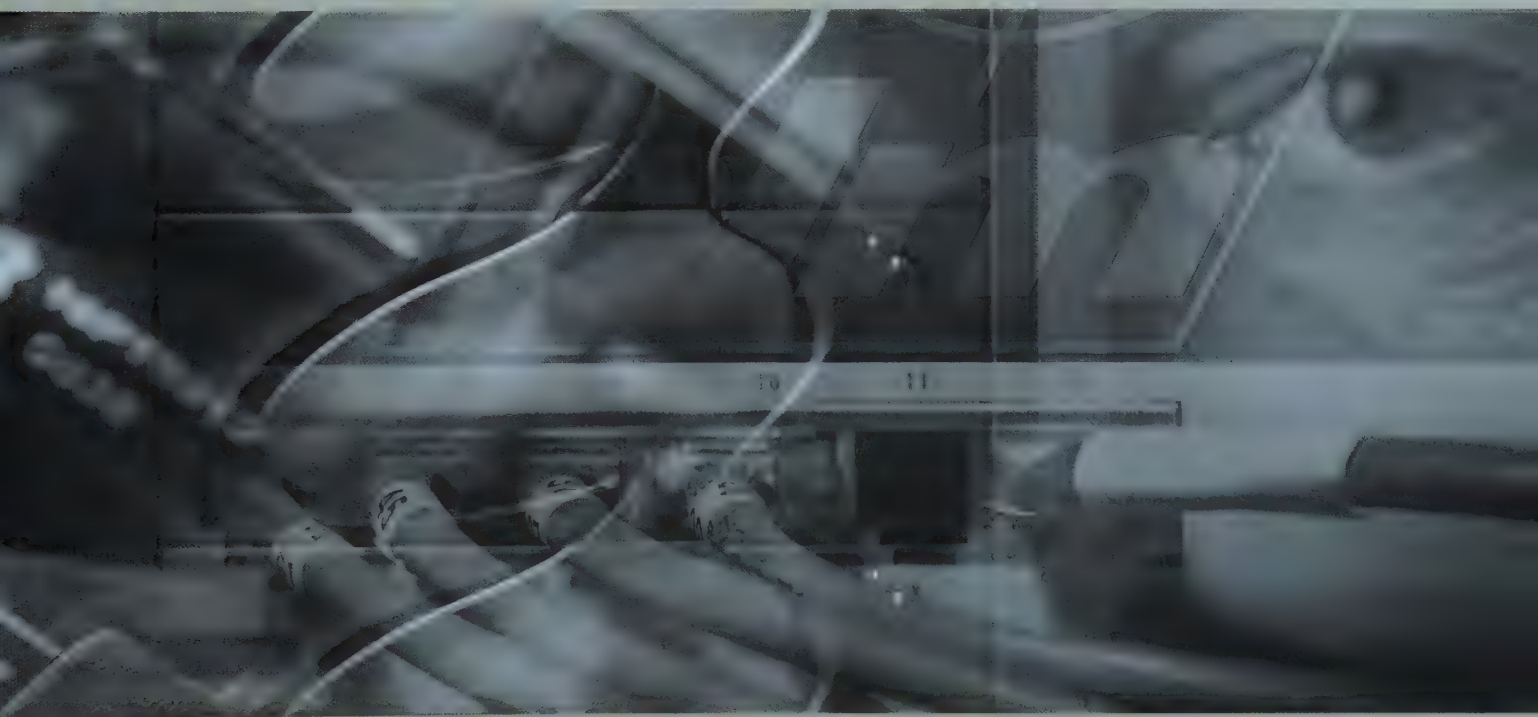
*We are enabling variable digital imaging in support of the latest customer relationship management business models and direct mail applications.*

The emergence of customer relationship management (CRM) business models and the development of digital print technologies are creating dynamic market opportunities in the areas of personalization and target marketing. New digital image management tools, combined with data modeling and analysis techniques, are also giving marketers the ability to give visual relevance to their targeted marketing message. These forces will drive digital imaging as marketers work to build and manage customer loyalty.

In 2001, PLM expanded its digital imaging capabilities, adding MICR and digital colour

imaging capabilities to our current product offering. With these new tools, we have achieved a greater integration of services and positioned ourselves to deliver across multiple platforms, and facilitate the production of a broad range of marketing communications.

As we move forward, digital colour imaging will become an integral part of our customers' marketing mix. New applications such as web-to-print and print-to-web will develop and drive digital colour imaging. The market for targeted marketing campaigns will continue to grow as our clients build knowledge engines to drive return on investment, associating marketing spend with propensity to buy. This will stimulate both traditional and digital print as different vehicles are used to support customer relationship management approaches. In short, we are adding variable colour imaging to the market-leading capabilities of our in-house direct marketing operations to become the production engine of choice for our customers.





# The Digital REVOLUTION





## HOW PLM IS REVOLUTIONIZING CUSTOMER SERVICE.

*We offer single source solutions.*

Through our finishing and fulfillment capabilities, we close the client service loop. By expanding the

scope of our services in these areas we can now deliver an end-to-end seamless process to our customers that begins at the earliest possible phase of a project and ends with fulfillment to the end user. This product and service integration gives us the opportunity to manage projects proactively and ultimately enhance the customer experience.









**MAN  
ROLAND**



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# Management's Discussion & Analysis

## OVERVIEW



PLM PRIDES  
ITSELF IN  
CREATING AN  
ENVIRONMENT  
THAT  
ENCOURAGES  
EMPLOYEES TO  
DO THEIR BEST.

**P**LM Group is a commercial print services company active in niche markets in Canada and the United States. In order to expand its profitable growth potential, enhance competitiveness and efficiency and better serve its customers, PLM has added substantial capabilities over the past three years in what management believes are high demand areas of the print-related marketplace. These capabilities include digital pre-press and asset management, direct mail services and full web printing.

During 2001, the Company completed this phase of its expansion with the consolidation of direct mail, half web, bindery and head office operations into a new facility adjacent

to its full web and sheet fed locations in Markham, Ontario.

This consolidation formed the basis for a significant expansion of the Company's bindery operation specializing in cut, fold, stitch and trim activities.

In addition, the Company expanded its capacity in digital pre-press and direct mail and acquired a 6 colour Heidelberg press for its sheet fed operation.

A major thrust in 2001 and one that will continue in future years is the Company's expansion of digital technology both to increase the speed and efficiency of workflow and to provide value added services to our customers. These value-added concepts allow our customers to save time throughout the production process and to better utilize valuable database information to create more meaningful and targeted communications to their customers.



# Management's Discussion & Analysis



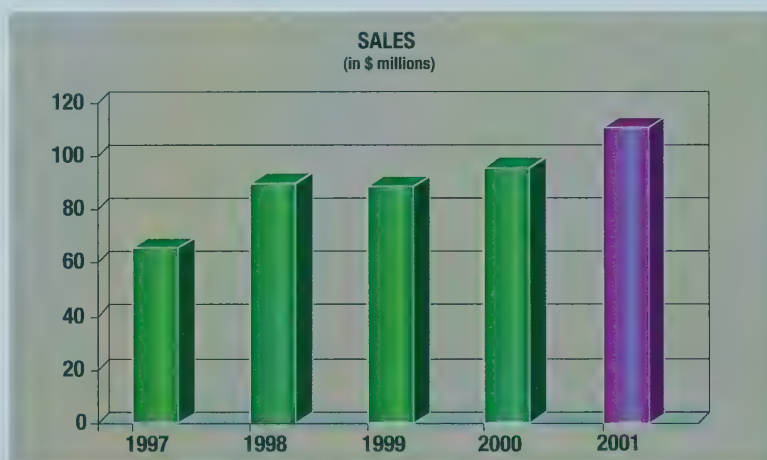
## 2001 PERFORMANCE

**P**LM achieved record financial performance in 2001, enabling the repayment of a significant amount of debt, despite difficult market conditions. Strong sales and better earnings came as a result of increased volumes from the Company's web printing, direct mail and imaging capabilities, greater absorption of overhead costs and

higher added value customer activities. Effective January 1, 2002, PLM sold certain operating assets of PLM America in a move that strengthens the Company's future outlook.

All of the comments in this analysis relate to the continuing operations of PLM – excluding PLM America assets that were divested.

## SALES



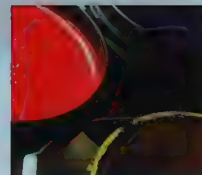
**D**espite the relocation of a significant portion of the Company's workforce and capital assets to its new facility and in spite of the economic downturn experienced throughout 2001 – which became more significant after September 11 – PLM surpassed \$100 million in sales for the first time in its history. Sales in

2001 stood at \$107 million, a 15.5% increase from the prior year.

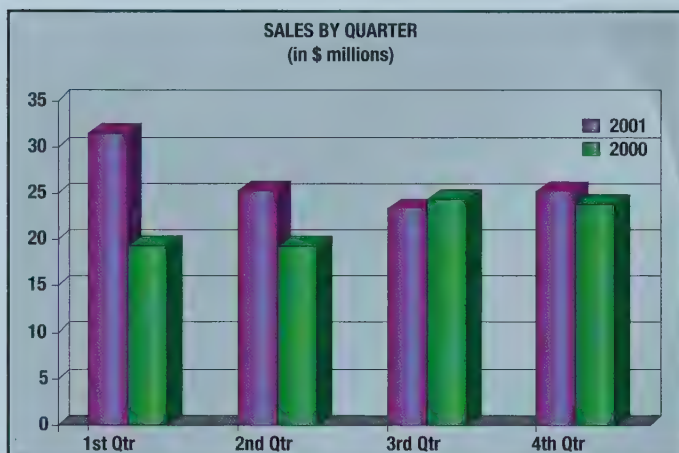
This increase was most pronounced at PLM's web operations, where sales expanded 11% over the previous year and at PLM's direct mail operation, where sales climbed 88% from the previous year.



# Management's Discussion & Analysis



## SALES (cont.)



TRADITIONAL  
SEASONAL SALES  
PATTERNS WERE  
CAST ASIDE IN  
2001 BY THE  
ECONOMIC  
DOWNTURN AND  
SEPTEMBER 11  
TRAGEDY.

Due to the unusual economic climate, PLM's sales growth was uneven during the year. During the first two quarters, the Company experienced sales growth of 39% and 30% respectively over the corresponding quarters of 2000. In contrast to the first half of the year, third quarter sales were down 4% from the previous year as the economic slowdown exacerbated what is typically a slow quarter for the industry. PLM then ended the year with fourth quarter sales growth of 4%, which is a small increase relative to the traditional seasonal sales surge experienced by the print industry due to Christmas promotions. Management believes this is understandable given the lingering impact of September 11, and general uncertainty in the market.

The overall increase in sales this year reflected two key elements of the business:

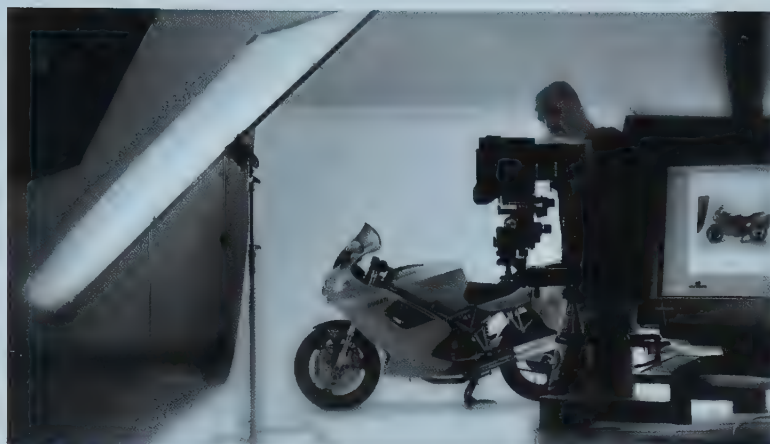
- PLM's ability to attract new customers because of a commitment to the commercial printing segment of the market.
- PLM's commitment to providing value added components to the process to enhance and deepen customer relationships. This is most clearly demonstrated by the results of the Company's direct mail operation. Since its inception in 1998, this operation has grown from a start up business, to a significant contributor to our financial success. With sales in 2001 of \$8.5 million and a gross margin of 45%, this operation provides PLM with two significant advantages. It is a highly profitable segment and provides a significant value added service to clients that allows PLM to deepen and strengthen customer relationships.

## SALES DIVERSITY

**B**y its nature, the commercial printing segment is not a contractually-based business. Commercial printing companies rely upon long and deep relationships with existing customers and the ability to provide enhanced services that will attract new customers. In 2001, revenue generated by PLM's

top 10 accounts grew 54% to represent 36.5% of sales (26.6% in 2000). Although it contributed more to the Company's top line, PLM's largest account, represented 10.4% of 2001 sales, a slight decline in percentage terms from the largest account in 2000, which represented 10.8% of sales.

# Management's Discussion & Analysis



In addition, the Company opened a number of new accounts in 2001, representing over 10% of consolidated sales.

Sales to U.S.-based customers declined in 2001 primarily as a result of soft economic conditions and the events of September 11. The Company remains committed to building its market presence in the United States but is realistic in its belief that this will be a slow process which will occur over several years.

## GROSS MARGIN

Gross margin for the year of 29% was virtually unchanged from 2000, despite the significant upheaval inherent in moving and consolidating operations and adding new capabilities. In other words, PLM generated consistent margin, indicating an improvement in operational efficiency. This is even more impressive considering the significant pricing pressure in the marketplace which became more pronounced during the final two quarters of the year.



## EXPENSES

As a percentage of sales, selling and administrative costs declined to under 14% in 2001 from 15% in 2000. Cash interest expense declined by \$0.5 million in 2001 as a result of ongoing debt reduction, improved cash management and lower interest rates.

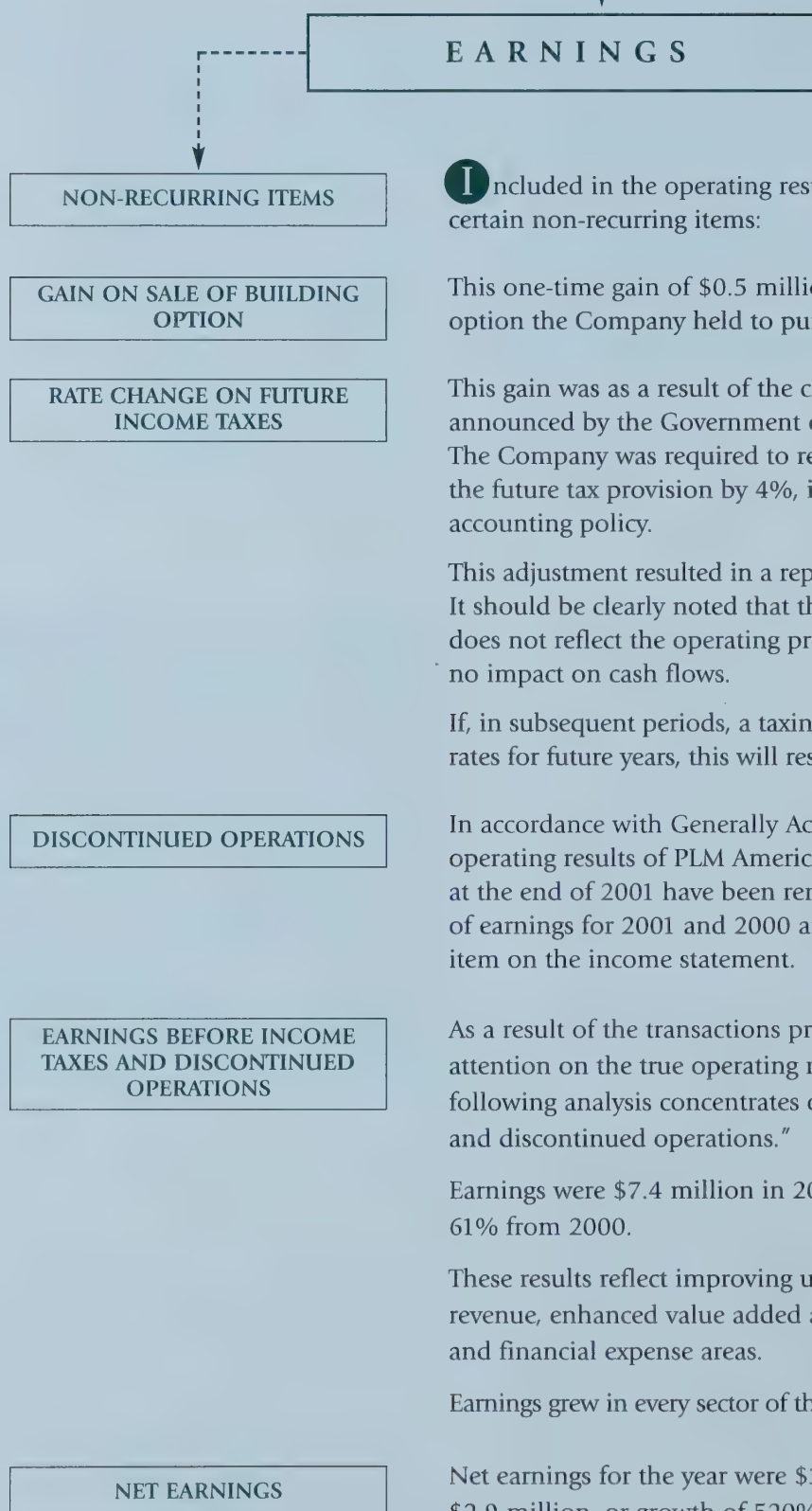
With the elimination of the

discontinued operations at PLM America, the Company's effective tax rate came into line with industry standards.

The Company has tax losses available to it from its American operations of \$3.7 million. These losses have not been recognized for accounting purposes.



# Management's Discussion & Analysis



**I**ncluded in the operating results of the Company this year are certain non-recurring items:

## GAIN ON SALE OF BUILDING OPTION

This one-time gain of \$0.5 million resulted from the sale of an option the Company held to purchase a building it did not require.

## RATE CHANGE ON FUTURE INCOME TAXES

This gain was as a result of the corporate tax rate reductions announced by the Government of Ontario during 2001. The Company was required to reduce the rate used for calculating the future tax provision by 4%, in accordance with its stated accounting policy.

This adjustment resulted in a reported one-time gain of \$1.0 million. It should be clearly noted that this is an accounting transaction and does not reflect the operating profitability of the Company and has no impact on cash flows.

If, in subsequent periods, a taxing authority should increase the tax rates for future years, this will result in a one-time charge to earnings.

## DISCONTINUED OPERATIONS

In accordance with Generally Accepted Accounting Principles, the operating results of PLM America's business that was discontinued at the end of 2001 have been removed from the detailed statement of earnings for 2001 and 2000 and disclosed separately as a line item on the income statement.

## EARNINGS BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS

As a result of the transactions previously noted, and to focus attention on the true operating results of the Company, the following analysis concentrates on "earnings before income taxes and discontinued operations."

Earnings were \$7.4 million in 2001, an increase of \$2.8 million or 61% from 2000.

These results reflect improving utilization of assets, increased sales revenue, enhanced value added and reduced costs in administrative and financial expense areas.

Earnings grew in every sector of the Company on a year-over-year basis.

## NET EARNINGS

Net earnings for the year were \$3.5 million, an increase of \$2.9 million, or growth of 520%. As previously noted, this resulted from additional utilization of capacity, and cost reductions.

# Management's Discussion & Analysis



## FINANCIAL POSITION

With combined repayments of more than \$10 million in long term and bank indebtedness, the Company's financial position has been significantly strengthened since the 2000 year end.

The Company's current ratio declined since last year, reflecting the reclassification of the \$3.4 million debenture to a current liability. Excluding this reclassification, the ratio would have been a more healthy 1.23:1 compared to 1.08:1 at December 31, 2000.

The Company will repay the debenture from a combination of operating cash flow and normal bank borrowings.

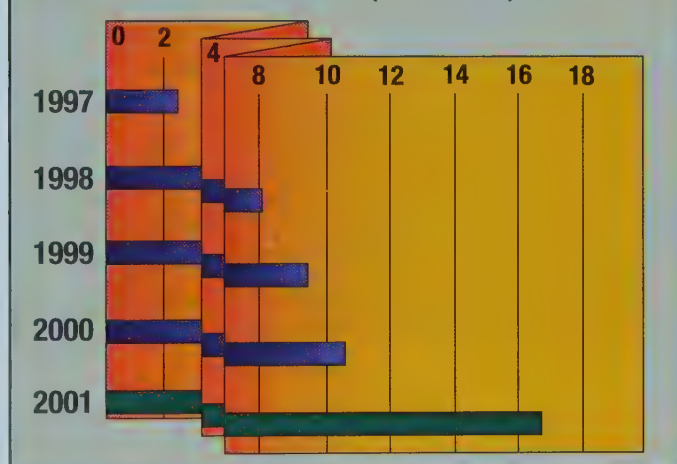
Long-term debt to equity has decreased to 1.06:1 from 1.66:1 a year ago. Anticipating 2002 scheduled debt repayments of \$6.5 million, this ratio should decline to below 0.75:1 by the end of 2002.

EBITDA for the year was \$16.6 million (15.6% of sales) compared to \$13.9 million (15.0% of sales) a year ago.

Cash flow generated from U.S. sales should be sufficient to meet U.S. dollar debt repayments for fiscal 2002.

During the year, the Company purchased capital assets valued at \$3.5 million and incurred one time start up costs of \$1.2 million related to the commencement of operations at its new facility in Markham. It is anticipated that capital expenditures for 2002 will be below \$3 million.

**CASH FLOW FROM OPERATIONS**  
(in \$ millions)



**LONG TERM DEBT**  
(in \$ millions)





# Management's Discussion & Analysis



## COMMENTARY & OUTLOOK



MEMBERS OF  
PLM'S  
EXPERIENCED  
WELL-TENURED  
AND HIGHLY  
MOTIVATED  
MANAGEMENT  
TEAM.

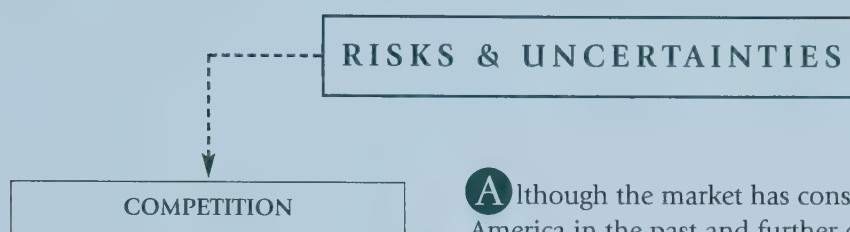
Fiscal 2001 was a watershed year for PLM, a period during which the Company demonstrated to its investors and customers the positive impact of the significant changes and capital investments of the past three years. PLM validated its ability to increase sales and profitability in a most fundamental way: it produced growth in both during a period of economic weakness. Management strongly believes this was possible because of PLM's sharp and exclusive focus on niche print markets, the fact that the Company has a highly productive workforce, and technology that is highly appropriate for its customer base.

The economic weakness evident early

in 2002 means 2002 likely will be a more traditional year for the print industry, and for PLM in particular, with modest income in the first quarters of the year building to expected growth in the third and fourth quarters.

Looking forward, not only to 2002 but beyond, management believes PLM is well positioned to succeed because of its strong and improving balance sheet, long and deep relationships with its clients and its ability to effectively market and sell solutions that customers find appealing. PLM will work hard to continue applying its strategy of employing the best people and the best technology in the years ahead.

# Management's Discussion & Analysis



Although the market has consolidated significantly in North America in the past and further consolidation is likely, the competitive landscape for print-related services remains highly fragmented. Accordingly, PLM does not compete with the same companies on every assignment. In anticipation of these competitive trends, PLM has applied a strategy of adding value-added service extensions to its capabilities and bundling these together to offer total customer solutions in print. This has helped to differentiate the Company from smaller suppliers who are not nearly as technologically advanced and distance PLM from conglomerates which do not have a pure print focus. PLM does not, itself, apply a consolidation strategy, preferring to grow organically. However, the Company will entertain selective acquisition opportunities if management believes there is a business or economic advantage in doing so.

## ECONOMIC CYCLES

As a commercial printer, PLM's markets are influenced by cyclical swings in economic activity. In general, slower economic activity tends to dampen customer enthusiasm for non-discretionary spending. However, in PLM's experience, economic downturns can have the opposite affect: some companies escalate spending on print-related marketing services in order to neutralize the impact of lower consumer or business demand for their products.

PLM believes, due to its unique mix of printing equipment and services, and its well-diversified base of financially strong customers, that the impact of an economic down market will be moderated. In particular, PLM's ability to cost-effectively adjust print volumes – by using its different printing technologies – positions the Company well in times of economic uncertainty.

## DEMAND FOR PRINT-RELATED SERVICES

PLM's customers view print as an important and core element of their marketing campaigns. Print material, in particular, adds credibility and makes a positive statement about a company's financial solidity and success.

## RAW MATERIAL COSTS

PLM enjoys excellent relationships with all of its major suppliers and does not anticipate major price changes for key raw materials (paper and ink) in the year 2002. The Company's key vendor relationships ensure a continued source of supply for key production components.



# Management's Discussion & Analysis



## RISKS & UNCERTAINTIES (CONTINUED)

### INTEREST RATE FLUCTUATIONS

Higher interest rates have the potential to add materially to PLM's cost structure. To reduce exposure to interest rate changes, the Company has tended to finance capital expenditures through operating cash flows. Management's main goal in this area is to reduce long-term debt as quickly as possible.

### DEPENDENCE ON KEY PERSONNEL

PLM is not dependent on any single individual. The Company believes it has a strong and deep management team made up of dedicated and experienced personnel whose interests are fully aligned with the interests of other shareholders.

### FOREIGN EXCHANGE

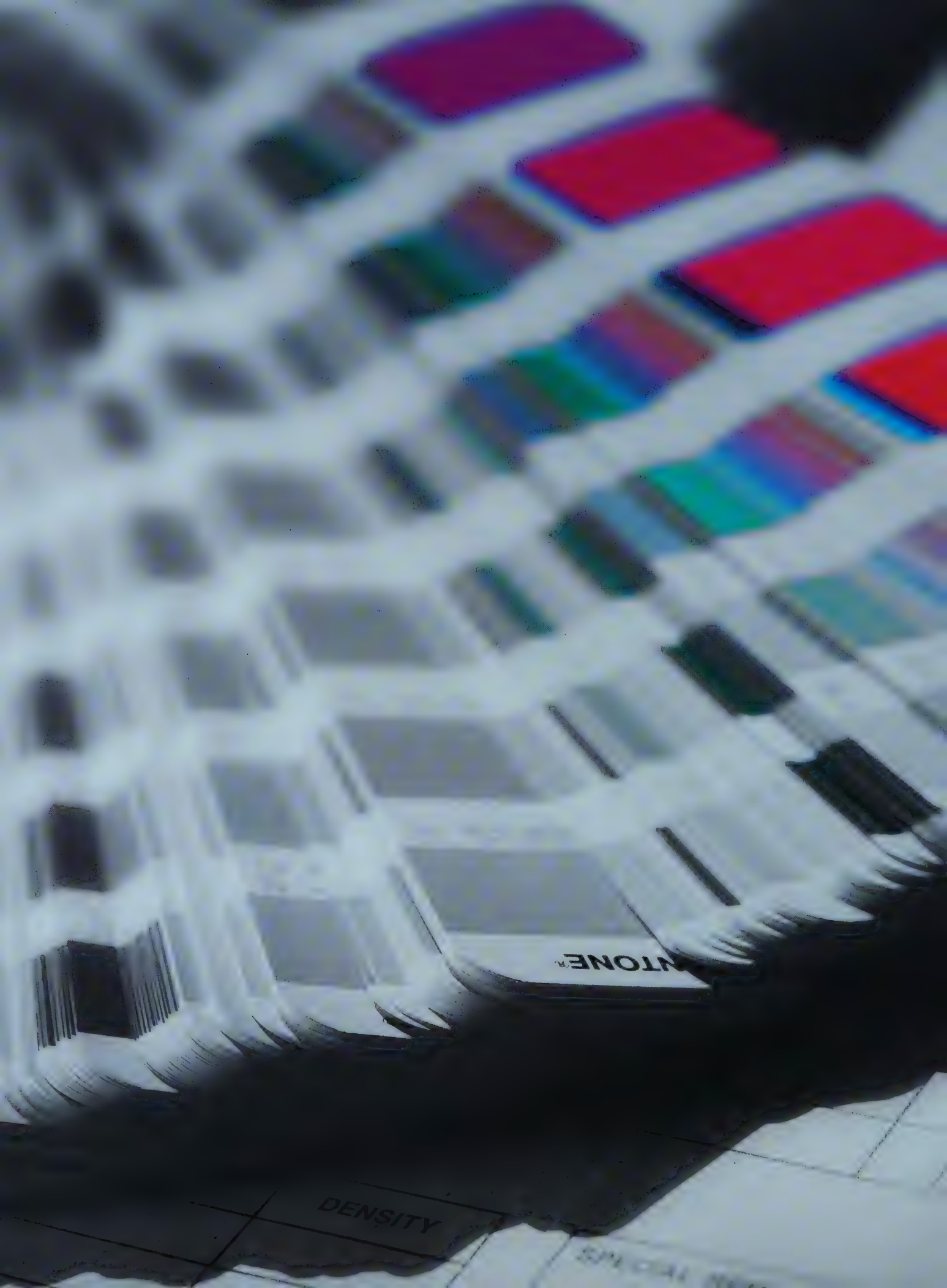
Cash flow generated from U.S. dollar denominated sales should be more than sufficient to meet U.S. dollar debt repayments in fiscal 2002.

## FORWARD-LOOKING STATEMENTS

*This annual report contains forward-looking statements (denoted by words such as "expects", "could", "should", "intends", "plans" and "anticipates") that involve known and unknown risks and uncertainties. Actual results may be materially different than those contained in these forward-looking statements. Readers are cautioned not to place undue reliance on any forward-looking statement, which is the product of management's judgement and analysis at the time offered. The Company undertakes no obligation to publicly release updates or revisions to its forward-looking statements.*







ANTONE

DENSITY

SPECIAL





## Management's Responsibility for FINANCIAL REPORTING

The consolidated financial statements of PLM Group Ltd. and its subsidiary and all the information in this annual report are the responsibility of management and are approved by the Board of Directors of PLM Group Ltd.

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada, and necessarily include some amounts that are based on best estimates and judgements. Financial information contained elsewhere in this annual report is consistent with that shown in the financial statements.

Management has developed and maintains systems of internal accounting controls, policies, and procedures in order to provide reasonable assurance as to the reliability of financial records and the safeguarding of assets. Management believes these systems, policies, and procedures provide reasonable assurance that financial records are reliable and form a proper basis for the preparation of the financial statements.

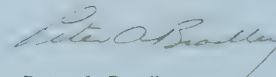
The Board of Directors carries out its responsibility for the financial statements included in this annual report principally through its Audit Committee, consisting solely of outside directors. The Audit Committee reviews the Company's annual consolidated financial statements and formulates the appropriate recommendations to the Board of Directors. The auditors appointed by the shareholders have full access to the Audit Committee, with and without the presence of management. The auditors are not engaged to perform any consulting work for the company with the exception of tax work which the Audit Committee views as intrinsic to the audit engagement.

Grant Thornton LLP, Chartered Accountants, the external auditors, have examined these consolidated financial statements. Their report follows.

Markham, Canada  
March 2, 2001



Barry N. Pike  
Chairman and Chief Executive Officer



Peter A. Bradley  
Chief Financial Officer

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## Auditor's REPORT

To the Shareholders of PLM Group Ltd.

We have audited the consolidated balance sheets of PLM Group Ltd. as at December 31, 2001 and 2000 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Markham, Canada  
February 28, 2002



Chartered Accountants

# CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

| Year Ended December 31                                                   | 2001                 | 2000                 |
|--------------------------------------------------------------------------|----------------------|----------------------|
| Sales                                                                    | \$ 106,893,685       | \$ 92,570,248        |
| Cost of sales                                                            | <u>75,747,466</u>    | <u>65,038,215</u>    |
| Gross profit                                                             | 31,146,219           | 27,532,033           |
| Selling and administrative expenses                                      | <u>14,508,782</u>    | <u>13,635,847</u>    |
|                                                                          | <u>16,637,437</u>    | <u>13,896,186</u>    |
| Interest other than imputed amounts (Note 15)                            | 2,324,967            | 2,839,141            |
| Net imputed interest                                                     | <u>303,321</u>       | <u>(299,262)</u>     |
|                                                                          | 2,628,288            | 2,539,879            |
| Depreciation and amortization                                            | <u>6,695,224</u>     | <u>6,527,709</u>     |
|                                                                          | <u>9,323,512</u>     | <u>9,067,588</u>     |
| Earnings before income taxes, discontinued operations and the following: | 7,313,925            | 4,828,598            |
| Amortization of deferred foreign exchange loss                           | (464,632)            | (210,513)            |
| Gain on sale of option (Note 19)                                         | <u>545,000</u>       | <u>-</u>             |
| Earnings before income taxes and discontinued operations                 | <u>7,394,293</u>     | <u>4,618,085</u>     |
| Income taxes (recovery) (Note 11)                                        |                      |                      |
| Current                                                                  | 1,899,451            | 710,578              |
| Future - excluding impact of rate changes                                | 940,000              | 1,243,422            |
| Future - impact of rate changes                                          | <u>(956,000)</u>     | <u>(140,000)</u>     |
|                                                                          | <u>1,883,451</u>     | <u>1,814,000</u>     |
| Earnings from continuing operations                                      | 5,510,842            | 2,804,085            |
| Discontinued operations (Note 16)                                        | <u>(2,048,465)</u>   | <u>(2,245,780)</u>   |
| Net earnings                                                             | <u>\$ 3,462,377</u>  | <u>\$ 558,305</u>    |
| Earnings per share (Note 17)                                             |                      |                      |
| From continuing operations - basic and fully diluted                     | \$ 0.19              | \$ 0.10              |
| Discontinued operations                                                  | <u>(0.07)</u>        | <u>(0.08)</u>        |
| Net - basic and diluted                                                  | <u>\$ 0.12</u>       | <u>\$ 0.02</u>       |
| Retained earnings, beginning of year                                     | \$ 14,130,363        | \$ 13,691,693        |
| Net earnings                                                             | 3,462,377            | 558,305              |
| Premium on the purchase of shares for cancellation (Note 12(c))          | <u>-</u>             | <u>(119,635)</u>     |
| Retained earnings, end of year                                           | <u>\$ 17,592,740</u> | <u>\$ 14,130,363</u> |

See accompanying notes to the consolidated financial statements.



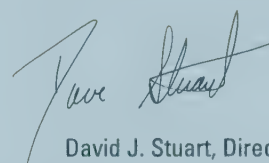
# CONSOLIDATED BALANCE SHEETS

| December 31                       | 2001                 | 2000                 |
|-----------------------------------|----------------------|----------------------|
| <b>Assets</b>                     |                      |                      |
| Current                           |                      |                      |
| Cash and cash equivalents         | \$ 537,260           | \$ -                 |
| Receivables                       | 24,792,656           | 26,472,277           |
| Income taxes receivable           | -                    | 95,738               |
| Future income taxes (Note 11)     | -                    | 235,000              |
| Inventories (Note 3)              | 4,112,355            | 4,225,430            |
| Prepays                           | 316,335              | 497,372              |
|                                   | <u>29,758,606</u>    | <u>31,525,817</u>    |
| Capital assets (Note 4)           | 45,014,230           | 48,174,408           |
| Goodwill (Note 5)                 | -                    | 390,082              |
| Deferred charges (Note 6)         | 3,636,568            | 1,757,605            |
| Other assets (Note 7)             | 233,880              | 663,087              |
|                                   | <u>\$ 78,643,284</u> | <u>\$ 82,510,999</u> |
| <b>Liabilities</b>                |                      |                      |
| Current                           |                      |                      |
| Bank indebtedness (Note 8)        | \$ -                 | \$ 5,288,287         |
| Payables and accruals             | 14,897,490           | 15,605,042           |
| Income taxes payable              | 532,269              | -                    |
| Deferred revenue                  | 2,229,208            | 371,924              |
| Current portion of long term debt | 6,515,994            | 6,382,347            |
| Convertible debentures            | 3,413,207            | -                    |
|                                   | <u>27,588,168</u>    | <u>27,647,600</u>    |
| Long term debt (Note 9)           | 22,255,005           | 25,991,886           |
| Convertible debentures (Note 10)  | -                    | 3,282,779            |
| Future income taxes (Note 11)     | 7,740,000            | 7,991,000            |
|                                   | <u>57,583,173</u>    | <u>64,913,265</u>    |
| <b>Shareholders' Equity</b>       |                      |                      |
| Capital stock (Note 12)           | 3,467,371            | 3,467,371            |
| Retained earnings                 | 17,592,740           | 14,130,363           |
|                                   | <u>21,060,111</u>    | <u>17,597,734</u>    |
|                                   | <u>\$ 78,643,284</u> | <u>\$ 82,510,999</u> |
| Commitments (Note 13)             |                      |                      |

On behalf of the Board



Barry N. Pike, Director



David J. Stuart, Director

See accompanying notes to the consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| Year Ended December 31                                                            | 2001                | 2000               |
|-----------------------------------------------------------------------------------|---------------------|--------------------|
| Cash and equivalents derived from (applied to)                                    |                     |                    |
| <b>Operating</b>                                                                  |                     |                    |
| Earnings from continuing operations                                               | \$ 5,510,842        | \$ 2,804,085       |
| Depreciation                                                                      | 6,362,659           | 6,218,187          |
| Gain on disposal of capital assets                                                | (63,383)            | (34,692)           |
| Gain on sale of option                                                            | (545,000)           |                    |
| Writedown of investment                                                           | -                   | 59,121             |
| Amortization of goodwill and deferred charges<br>other than foreign exchange loss | 332,524             | 309,523            |
| Amortization of deferred foreign exchange loss                                    | 464,632             | 210,513            |
| Future income taxes - excluding impact of rate<br>changes                         | 940,000             | 1,243,422          |
| Future income taxes - impact of rate changes                                      | (956,000)           | (140,000)          |
| Net imputed interest                                                              | 303,321             | (299,262)          |
|                                                                                   | <u>12,349,595</u>   | <u>10,370,897</u>  |
| Change in non-cash operating working<br>capital (Note 18)                         | <u>4,315,574</u>    | <u>150,441</u>     |
| Cash provided by continuing operations                                            | <u>16,665,169</u>   | <u>10,521,338</u>  |
| Cash used in discontinued operations                                              | <u>(1,822,730)</u>  | <u>(1,082,864)</u> |
|                                                                                   | <u>14,842,439</u>   | <u>9,438,474</u>   |
| <b>Financing</b>                                                                  |                     |                    |
| Bank financing                                                                    | (5,609,332)         | 794,579            |
| Advances from shareholders                                                        | -                   | (119,995)          |
| Purchase of shares for cancellation (Note 12(c))                                  | -                   | (143,454)          |
| Long term debt                                                                    | <u>(5,120,996)</u>  | <u>(6,060,722)</u> |
| Cash used in continuing operations                                                | <u>(10,730,328)</u> | <u>(5,529,592)</u> |
| Cash provided by (used in) discontinued operations                                | <u>149,595</u>      | <u>(749,134)</u>   |
|                                                                                   | <u>(10,580,733)</u> | <u>(6,278,726)</u> |
| <b>Investing</b>                                                                  |                     |                    |
| Deferred charges                                                                  | (1,178,690)         | (66,373)           |
| Purchase of capital assets                                                        | (3,456,692)         | (2,838,955)        |
| Proceeds on disposal of capital assets                                            | 99,070              | 42,000             |
| Proceeds on sale of option                                                        | 545,000             |                    |
| Other assets                                                                      | <u>289,379</u>      | <u>(26,912)</u>    |
| Cash used in continuing operations                                                | <u>(3,701,933)</u>  | <u>(2,890,240)</u> |
| Cash used in discontinued operations                                              | <u>(22,513)</u>     | <u>(1,151,111)</u> |
|                                                                                   | <u>(3,724,446)</u>  | <u>(3,159,748)</u> |
| Net increase in cash and cash equivalents                                         | <u>537,260</u>      |                    |
| Cash and cash equivalents, beginning of year                                      | <u>-</u>            | <u>-</u>           |
| Cash and cash equivalents, end of year                                            | <u>\$ 537,260</u>   | <u>\$ -</u>        |

See accompanying notes to the consolidated financial statements.



# Notes to the Consolidated Financial Statements

December 31, 2001

## 1. Nature of operations

PLM Group Ltd. is a full-service commercial printing and visual communications business, delivering a comprehensive range of prepress offerings (including media asset control, digital and conventional photography, digital plate imaging, scanning photo manipulation, design and film), sheet-fed printing, heat-set web printing, finishing and bindery and direct marketing services in North America. Its customers include a diversified cross-section of well recognized Canadian and US businesses.

## 2. Summary of significant accounting policies

### Principles of consolidation

The consolidated financial statements include the accounts of all companies in which the Company has a controlling interest, after the elimination of inter-company transactions and balances. Effective January 1, 2001, PLM Group Ltd. and its Canadian subsidiaries were amalgamated, leaving only one 100% owned U.S. subsidiary, PLM America, Inc.

### Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks, net of bank overdrafts, and highly liquid temporary money market instruments with original maturities of three months or less. Bank borrowings are considered to be financing activities.

### Revenue recognition

Revenue is recognized by each division of the Company on a completed contract basis. This method is used because the typical contract within each division is completed in two months or less and the Company cannot reasonably estimate the extent of progress toward completion. A contract is considered complete when all costs except insignificant items have been incurred. Where projects involve more than one division, revenue is recognized on a percentage-of-completion basis as each division completes its share of the project. The percentage-of-completion is determined based on the allocation of revenue to each division as per the original quotation negotiated with the customer. This method is used as management considers the quotation to be the best available measure of progress on these contracts.

Contract costs include all direct material, labour and other costs and those indirect costs related to contract performance, such as supplies and repairs. General and administration costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

### Inventories

Raw materials and supplies are valued at the lower of cost and replacement cost. Work in process is valued at the lower of cost and net realizable value. Cost is determined principally on a first-in, first-out basis. Cost includes material, labour and manufacturing overhead.

### Capital assets

Capital assets are stated at cost. Cost includes acquisition or construction costs, including direct financial costs incurred with respect to construction until the beginning of commercial production.

The cost less the estimated salvage value of capital assets is depreciated over the estimated lives of the assets using the following annual rates and bases:

|                               |                               |
|-------------------------------|-------------------------------|
| Prepress production equipment | Declining balance – 20%       |
| Plant equipment               | Straight-line – 3 to 15 years |
| Furniture and fixtures        | Declining balance – 20%       |
| Computer equipment            | Straight-line – 3 to 5 years  |
| Computer software             | Straight-line – 4 years       |
| Tools                         | Straight-line – 5 years       |
| Vehicles                      | Straight-line – 3 years       |
| Leasehold improvements        | Straight-line – 5 to 10 years |

### Goodwill

Goodwill is amortized on a straight-line basis over its estimated life of 15 years.

An evaluation to determine the amount of goodwill impairment, if any, is measured on the basis of estimated future undiscounted cash flows associated with the asset. The estimated future undiscounted cash flows is compared to the asset's carrying value to determine whether a write-down is required.

### Deferred charges

Start-up costs – Costs relating to the start-up of new facilities or business units are deferred and amortized on a straight-line basis over three to five years once commercial production has commenced.

Financing costs – Costs incurred as a result of arranging financing are deferred and amortized on a straight-line basis over the term of the financing.

### Investments

Portfolio investments are stated at cost, less write-downs when any decline in value is considered to be other than temporary.

# Notes to the Consolidated Financial Statements

## 2. Summary of significant accounting policies (continued)

### Financial liabilities

Where a convertible financial liability is issued with a stated interest rate that is significantly lower than the prevailing market interest rate for similar financial liabilities without a conversion feature, for purposes of balance sheet presentation, a portion of the face value of the financial liability is allocated to equity at the date of issue. The value attributed to the liability is determined using discounted cash flow analysis.

### Earnings per share

In 2001 the Company changed its accounting policy with respect to the computation of earnings per share in accordance with new recommendations issued by the Canadian Institute of Chartered Accountants. The main effect of the change is in the calculation of diluted earnings per share, which is now calculated using the treasury stock method for options instead of the imputed interest method. This change in accounting policy has been applied on a retroactive basis and the comparative figures have been restated accordingly. The effect of this change for 2001 was to increase diluted earnings per share from continued operations by \$0.01 (2000 - \$Nil). There was no significant impact on other earnings per share amounts.

### Employee share purchase and option plans

Amounts paid by employees to purchase shares under the share option plan (Note 12(f)) and the employee share purchase plan (Note 12(e)) are credited to share capital. No compensation expense is recognized for these plans when stock or stock options are issued to employees.

### Future income taxes

The Company uses the liability method of tax allocation, whereby temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are measured using the income tax rates and laws that, at the balance sheet date, are expected to apply when the differences reverse. The amount recognized for future income tax assets is limited to the amount that is more likely than not to be realized.

### Translation of foreign currencies

Canadian legal entities and integrated foreign subsidiaries translate monetary assets and liabilities at the year end rate of exchange. Revenue and expenses are translated at average rates of exchange, except for the cost of inventories and for depreciation, which are translated at rates prevailing when the related assets were acquired. Translation gains and losses are included in earnings, except for unrealized gains and losses arising from translation of long term monetary assets and liabilities, which are deferred and amortized over the remaining lives of the related items.

### Use of estimates

In preparing the Company's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses. Significant areas requiring the use of management estimates include the useful lives of capital assets, the salvage values of capital assets, the evaluation of impairment for long term assets, the provision for income taxes and the determination of fair values for financial instruments. Actual results could differ from estimates.

## 3. Inventories

|                 | <u>2001</u>      | <u>2000</u>      |
|-----------------|------------------|------------------|
| Raw materials   | \$ 2,575,630     | \$ 2,794,158     |
| Work in process | <u>1,536,725</u> | <u>1,431,272</u> |
|                 | \$ 4,112,355     | \$ 4,225,430     |

## 4. Capital assets

| Cost                         | <u>2001</u>       | <u>2000</u>       |
|------------------------------|-------------------|-------------------|
| Prepress and plant equipment | \$ 40,582,240     | \$38,994,779      |
| Furniture and fixtures       | 851,099           | 770,342           |
| Computer equipment           | <u>2,218,117</u>  | <u>1,860,707</u>  |
| Computer software            | 809,549           | 718,654           |
| Tools                        | 81,872            | 74,430            |
| Vehicles                     | 9,000             | 46,315            |
| Leasehold improvements       | <u>3,776,543</u>  | <u>2,141,527</u>  |
|                              | <u>48,328,420</u> | <u>44,606,754</u> |

|                              |                   |                   |
|------------------------------|-------------------|-------------------|
| Assets under capital lease:  |                   |                   |
| Prepress and plant equipment | \$ 25,391,687     | \$25,851,256      |
| Other                        | <u>21,951</u>     | <u>84,145</u>     |
|                              | <u>25,413,638</u> | <u>25,935,401</u> |
| TOTAL                        | \$ 73,742,058     | \$70,542,155      |

| Accumulated depreciation     |                   |                   |
|------------------------------|-------------------|-------------------|
| Prepress and plant equipment | \$ 12,228,791     | \$ 8,962,622      |
| Furniture and fixtures       | 554,091           | 470,221           |
| Computer equipment           | <u>1,101,967</u>  | <u>695,038</u>    |
| Computer software            | 420,074           | 249,112           |
| Tools                        | 40,365            | 30,937            |
| Vehicles                     | 675               | 35,932            |
| Leasehold improvements       | <u>1,703,643</u>  | <u>1,331,234</u>  |
|                              | <u>16,049,606</u> | <u>11,775,096</u> |

|                              |                   |                   |
|------------------------------|-------------------|-------------------|
| Assets under capital lease:  |                   |                   |
| Prepress and plant equipment | \$ 12,658,467     | \$10,546,129      |
| Other                        | <u>19,755</u>     | <u>46,522</u>     |
|                              | <u>12,678,222</u> | <u>10,592,651</u> |
| TOTAL                        | \$ 28,727,828     | \$22,367,747      |



# Notes to the Consolidated Financial Statements

## 4. Intangible Assets (continued)

| Net book value                |                     |                     |
|-------------------------------|---------------------|---------------------|
| Property, plant and equipment | \$28,122,428        | \$28,122,428        |
| Furniture and fixtures        | 287,006             | 287,006             |
| Computer equipment            | 1,165,881           | 82,886              |
| Computer software             | 278,478             | 488,478             |
| Tools                         | 2,517               | 2,517               |
| Leases                        | 8,128               | 13,881              |
| Leasehold improvements        | 2,177,800           | 2,177,800           |
|                               | <u>\$32,782,530</u> | <u>\$33,915,986</u> |
| Accumulated depreciation      |                     |                     |
| Property, plant and equipment | 12,733,220          | 12,733,220          |
| Tools                         | 1,148               | 1,148               |
|                               | <u>\$12,734,368</u> | <u>\$12,734,368</u> |
| <b>TOTAL</b>                  | <b>\$20,048,162</b> | <b>\$21,181,618</b> |

## 5. Goodwill

|                           | 2001        | 2000              |
|---------------------------|-------------|-------------------|
| Cost (see also Note 2(a)) | \$ -        | \$ 307,306        |
| Accumulated amortization  | -           | <u>307,306</u>    |
|                           | <u>\$ -</u> | <u>\$ 300,000</u> |

In December 15, 2001, the Company wrote off the goodwill related to discontinued operations (see Note 10) as it was determined that the amount would not be recovered and a permanent impairment in the value existed.

## 6. Deferred charges

|                                 | 2001                | 2000                |
|---------------------------------|---------------------|---------------------|
| <b>Cost</b>                     |                     |                     |
| Start-up costs                  | \$ 1,333,761        | \$ 134,898          |
| Financing costs                 | 467,246             | 467,246             |
| Reorganization costs            | 412,982             | 412,982             |
| Deferred foreign exchange loss  | 3,675,898           | 2,177,669           |
| Other                           | 50,500              | 70,573              |
|                                 | <u>5,839,587</u>    | <u>3,253,468</u>    |
| <b>Accumulated amortization</b> |                     |                     |
| Start-up costs                  | 275,475             | 61,863              |
| Financing costs                 | 398,824             | 398,824             |
| Reorganization costs            | 412,982             | 397,720             |
| Deferred foreign exchange loss  | 1,172,206           | 701,874             |
| Other                           | 44,332              | 34,332              |
|                                 | <u>2,303,819</u>    | <u>1,595,813</u>    |
| <b>Net book value</b>           |                     |                     |
| Start-up costs                  | 1,058,286           | 73,035              |
| Financing costs                 | 68,422              | 168,422             |
| Reorganization costs            | -                   | 15,262              |
| Deferred foreign exchange loss  | 2,502,892           | 1,475,795           |
| Other                           | 6,168               | 36,241              |
|                                 | <u>\$ 3,636,568</u> | <u>\$ 1,757,605</u> |

## 7. Other assets

|                                                                                                               | 2001              | 2000              |
|---------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| Investment in Jintan Inc.                                                                                     | \$ 38,828         | \$ 190,000        |
| Other deposits                                                                                                | 262,708           | 171,912           |
| Long term portion of employee share purchase plans                                                            | -                 | 180,000           |
| Notes receivable bearing interest at prime plus 1.50% receiving from April 1, 2001 repayment by April 1, 2002 | 106,000           | 120,000           |
| Other investments and advances                                                                                | 21,175            | 21,175            |
|                                                                                                               | <u>\$75,708</u>   | <u>\$65,087</u>   |
| Less amount included in receivables                                                                           | <u>135,628</u>    |                   |
|                                                                                                               | <b>\$ 255,880</b> | <b>\$ 865,087</b> |

## 8. Bank indebtedness

The Company has a revolving line of credit available for \$20,000,000. Canadian amounts bear interest at either prime plus 0.75% or the banker's acceptance rate plus 1.25%, and U.S. amounts bear interest at the U.S. base rate of 1.10% plus 1.25%. Included in the limit of \$20,000,000 is a sub-limit of \$5,000,000 for standby letters of credit, which are fully utilized as disclosed in Note 9, bearing commission rates of 1 1/4% per annum. The amount available under the facility may be reduced based on a percentage of receivables and inventory. Any unused amount under the facility is subject to a 0.25% per annum unused line fee. Security provided by the Company includes a general security agreement covering all assets and an assignment of receivables, inventories and insurance proceeds.

## 9. Long term debt

|                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 2001         | 2000         |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Equipment loan, US \$6,789,795, repayable in equal monthly principal instalments plus interest at LIBOR plus 2%, imputed interest of \$616,510 included in Canadian balance resulting in an effective rate of 4.43%, secured by a direct charge on specific equipment and a Can. \$2,000,000 irrevocable standby letter of credit bearing a 1 1/4% annual commission fee, maturing December 2005                                                 | \$11,399,438 | \$13,634,620 |
| Equipment loan, US \$4,649,168, repayable in equal monthly principal instalments plus interest at LIBOR plus 2%, no interest or payments prior to July 2002, principal of US \$4,502,405 discounted at 8% to reflect the interest cost during the payment-free period, secured by a direct charge on specific equipment and a US \$2,000,000 irrevocable standby letter of credit bearing a 1 1/4% annual commission fee, maturing December 2008 | 6,916,164    | 6,038,258    |

# Notes to the Consolidated Financial Statements

## 9. Long term debt (continued)

Term promissory note, US \$1,493,439, repayable in blended monthly instalments of principal and interest at 7.47%, secured by direct charges on specific equipment, maturing September 2004.

**\$ 2,378,749**    **\$ 2,946,548**

Term promissory note, US \$2,399,834, repayable in blended monthly instalments of principal and interest at 7.47%, secured by direct charges on specific equipment, maturing January 2005.

**3,822,424**    **4,599,036**

Equipment leases, US \$236,118, repayable in blended monthly instalments of principal and interest at rates ranging from 7.39% to 12.00%, secured by direct charges on specific equipment, maturing February 2002 to July 2004.

**376,089**    **547,539**

Equipment leases and notes, repayable in blended monthly instalments of principal and interest at rates ranging from 7.05% to 12.30%, secured by direct charges on specific equipment, maturing June 2003 to September 2006.

**3,878,135**    **4,530,905**

Demand bank loan.

**-**    **77,017**  
**28,770,999**    **32,374,233**

Current portion

**6,515,994**    **6,382,347**

**\$ 22,255,005**    **\$ 25,991,886**

Principal repayments due in each of the next five years and in aggregate are as follows:

|            |                      |
|------------|----------------------|
| 2002       | \$ 6,515,994         |
| 2003       | 7,243,921            |
| 2004       | 6,762,499            |
| 2005       | 4,700,763            |
| 2006       | 1,340,992            |
| Thereafter | 2,206,830            |
|            | <b>\$ 28,770,999</b> |

## 10. Convertible debentures

Convertible debentures

**\$ 3,413,207**    **\$3,282,779**  
**(3,413,207)**    **-**

Current portion

**\$ -**    **\$3,282,779**

In 1997, the Company issued 4,000 convertible debentures (the "debentures") with a face value of \$4,000,000. Also in 1997, 500 of the debentures were converted into 222,000 common shares, leaving 3,500 debentures with a face value of

\$3,500,000. The terms attached to the debentures include the following:

- interest bearing at 8%, payable semi-annually
- maturing August 2002
- convertible into common shares at the option of the holder at a price of \$2.25 per common share, subject to certain anti-dilution provisions
- redeemable at the option of the Company if the 20 day weighted average share price is equal to or exceeds \$2.81
- direct, unsecured obligations of the Company, ranking subordinate to all senior indebtedness

Upon issuance, the debentures were allocated to their component parts. The liability component represented the present value of the payment obligations, interest and principal, to be satisfied in cash, discounted at 12%, being the rate of interest that would be applicable to a debt-only instrument of comparable term and risk. The residual amount of the debentures represented the equity component and was presented in shareholders' equity. These component parts were measured at their respective estimated fair values at the time the debentures were issued.

Annually, the liability component is calculated as the present value of the interest payable over the remaining term together with the present value of the principal payable on maturity. The difference between the imputed interest and the semi-annual interest payments has been treated as an addition to the liability component of the debentures.

## 11. Income taxes

The difference between income taxes calculated using the Company's effective income tax rates and the amounts that would result from the application of the statutory income tax rates arises from the following:

|                                                                                                                      |                    |                     |
|----------------------------------------------------------------------------------------------------------------------|--------------------|---------------------|
| Combined basic federal and provincial income taxes at statutory rates applied to earnings from continuing operations | <b>\$3,114,000</b> | <b>\$ 2,028,000</b> |
| Reduction for manufacturing and processing in Canada                                                                 | <b>(399,000)</b>   | <b>(285,000)</b>    |
| Future income tax recovery related to changes in income tax rates (see below)                                        | <b>(956,000)</b>   | <b>(140,000)</b>    |
| Income offset by losses not previously recognized for tax purposes                                                   | <b>(181,000)</b>   | <b>-</b>            |
| Large corporations tax                                                                                               | <b>-</b>           | <b>100,000</b>      |
| Other items including non-deductible expenses                                                                        | <b>165,451</b>     | <b>111,000</b>      |
| Increase in valuation allowance                                                                                      | <b>140,000</b>     | <b>-</b>            |
|                                                                                                                      | <b>\$1,883,451</b> | <b>\$ 1,814,000</b> |



# Notes to the Consolidated Financial Statements

## 11. Income taxes (continued)

During the year, the Ontario Government enacted income tax rate changes that significantly impacted the reported value of the net future income tax liability. In accordance with the Company's accounting policy for future income taxes, which is in accordance with the recommendations of the Canadian Institute of Chartered Accountants, the net future income tax liability must reflect the income tax rates that, at the balance sheet date, are expected to apply when the liability is settled. The effect of such changes in tax rates is charged or credited to future income tax expense in the period in which the tax rate change is substantively enacted. Accordingly, during 2001, the Company recorded a future income tax recovery of \$956,000 (0.03 per share – basic and diluted) related to a reduction of approximately 4% in the rates expected to apply when the future income tax liability is settled.

Future income tax assets and liabilities are provided for temporary differences between the financial statement carrying values of existing assets and liabilities and their respective tax bases. The significant components of future income tax assets and liabilities related to continuing operations are as follows:

|                                                                                   | 2001                  | 2000                 |
|-----------------------------------------------------------------------------------|-----------------------|----------------------|
| Future income tax assets                                                          |                       |                      |
| Non-capital losses and other deductions available to offset future taxable income | \$ 140,000            | \$ 235,000           |
| Corporate minimum tax recoverable                                                 | 321,000               | 672,000              |
| Valuation allowance                                                               | (140,000)             | -                    |
|                                                                                   | <u>321,000</u>        | <u>907,000</u>       |
| Future income tax liabilities                                                     |                       |                      |
| Excess of carrying value of capital assets over the tax bases                     | (8,061,000)           | (8,663,000)          |
| Net future income tax liability                                                   | <u>\$ (7,740,000)</u> | <u>\$(7,756,000)</u> |
| Future income tax assets                                                          |                       |                      |
| Current                                                                           | \$ -                  | \$ 235,000           |
| Future income tax liabilities                                                     |                       |                      |
| Long term                                                                         | <u>(7,740,000)</u>    | <u>(7,991,000)</u>   |
|                                                                                   | <u>\$ (7,740,000)</u> | <u>\$(7,756,000)</u> |

The significant components of future income tax assets related to discontinued operations are as follows:

|                                                                                   | 2001               | 2000             |
|-----------------------------------------------------------------------------------|--------------------|------------------|
| Non-capital losses and other deductions available to offset future taxable income | \$ 1,116,000       | \$ 839,000       |
| Valuation allowance                                                               | <u>(1,116,000)</u> | <u>(839,000)</u> |
|                                                                                   | <u>\$ -</u>        | <u>\$ -</u>      |

A U.S. subsidiary has losses of approximately \$3,706,000 (Canadian) available to reduce future taxable income for which no future income tax asset has been recognized in these consolidated financial statements. These losses expire as follows:

|      |                     |
|------|---------------------|
| 2012 | \$ 51,000           |
| 2013 | 220,000             |
| 2014 | 409,000             |
| 2015 | 2,072,000           |
| 2016 | <u>954,000</u>      |
|      | <u>\$ 3,706,000</u> |

## 12. Capital stock

(a) The Company's authorized capital consists of the following:

- Unlimited first preferred shares
- Unlimited second preferred shares, of which 6,000,000 have been designated 2% Series A Second Preferred Shares and are voting, convertible into common shares and have a stated value of \$0.50 per share, and 3,000,000 have been designated 2% Series B Second Preferred Shares and are voting, convertible into common shares and have a stated value of \$1.25 per share
- Unlimited common shares

The first and second preferred shares may be issued in one or more series and the Board of Directors is authorized to fix the number of shares and the designation, rights, privileges, restrictions and conditions attaching to them.

(b) The Company's issued and fully paid shares are as follows:



# Notes to the Consolidated Financial Statements

## 12. Capital stock (continued)

|                                              | <u>2001</u>       |                     | <u>2000</u>       |                     |
|----------------------------------------------|-------------------|---------------------|-------------------|---------------------|
|                                              | <u>Shares</u>     | <u>Amount</u>       | <u>Shares</u>     | <u>Amount</u>       |
| <b>Common shares:</b>                        |                   |                     |                   |                     |
| Balance, beginning of year,<br>as adjusted   | 28,993,247        | \$ 3,467,371        | 27,669,514        | \$ 3,151,189        |
| Cancellation of shares (see below)           | (333,334)         | -                   | -                 | -                   |
| Purchase of shares for cancellation          | -                 | -                   | (171,500)         | (23,819)            |
| Issued under employee share<br>purchase plan | -                 | -                   | 1,000,000         | 340,000             |
| Issued on conversion of<br>preferred shares  | -                 | -                   | 495,233           | 1                   |
| Balance, end of year                         | <u>28,659,913</u> | <u>3,467,371</u>    | <u>28,993,247</u> | <u>3,467,371</u>    |
| <b>2% Series B Second Preferred Shares:</b>  |                   |                     |                   |                     |
| Balance, beginning of year                   | -                 | -                   | 495,233           | 1                   |
| Converted to common shares                   | -                 | -                   | (495,233)         | (1)                 |
| Balance, end of year                         | <u>-</u>          | <u>-</u>            | <u>-</u>          | <u>-</u>            |
| <b>Total</b>                                 |                   | <b>\$ 3,467,371</b> |                   | <b>\$ 3,467,371</b> |

In connection with the acquisition of a subsidiary in 1998, the purchase price was satisfied by the issuance of 333,334 common shares of the Company, all of which were deposited in escrow on closing to be released on the basis of cash flow generated by the subsidiary. During 2000, the common shares in escrow were forfeited, and during 2001 they were cancelled. In accounting for these transactions, the Company did not assign any value to the shares since the substance of the transactions would indicate they were never issued.

- (c) Under a normal course issuer bid during 2000, the Company purchased 171,500 common shares for cancellation at an average price of \$0.84 per share for a total consideration of \$143,454. Retained earnings was reduced by \$119,635 for the cost of the shares in excess of their stated value.
- (d) The holders of the 2% Series B Second Preferred Shares converted 495,223 shares into the same number of common shares in May 2000.
- (e) Under the Company's employee share purchase plan, employees were entitled to subscribe for up to 1,000,000 common shares of the Company at a purchase price equal to 90% of the valuation day price. The maximum that could be purchased by each employee pursuant to the plan could not exceed the lesser of 10% of the employee's basic annual salary and \$10,000. During 2000, the shares were fully subscribed at a total price of \$340,000. Employees were entitled to pay for the entire amount of the subscription price by way of interest free loans from the Company. The interest free loans were to be repaid by the employees through equal payroll deductions over a two year period from the date of issue. Each employee loan is supported by a promissory note and is immediately payable in full upon an employee's termination of employment. The common shares purchased are held in trust for each employee until their loan is repaid in full, at which time the shares are delivered to the employee. At December 31, 2001, the outstanding loans totalled \$132,075 (2000 - \$324,850), of which \$132,075 (2000 - \$164,850) was included in receivables and \$Nil (\$2000 - \$160,000) was included in other assets.
- (f) At December 31, 2001, common shares of the Company were reserved as follows:

|                                  | <u>Price</u> | <u>Expiry Date</u> | <u>Number</u>    |
|----------------------------------|--------------|--------------------|------------------|
| Convertible debentures (Note 10) | \$2.25       | August 2002        | 1,555,555        |
| Options                          | \$2.15       | November 2002      | 55,812           |
|                                  | \$2.00       | June 2003          | 60,000           |
|                                  | \$1.30       | April 2004         | 136,153          |
|                                  | \$0.48       | May 2005           | 805,000          |
|                                  | \$1.25       | November 2006      | 743,080          |
|                                  | \$0.70       | February 2010      | 140,000          |
|                                  | \$1.03       | March 2010         | 221,000          |
|                                  | \$0.50       | August 2010        | 100,000          |
|                                  | \$0.36       | March 2011         | 992,060          |
|                                  |              |                    | <u>3,253,105</u> |
|                                  |              |                    | <u>4,808,660</u> |



# Notes to the Consolidated Financial Statements

## 12. Capital stock (continued)

The Company's stock option plan for key managers and directors allows for the granting of up to 4,525,000 options to acquire common shares of the Company. The options, which have a term not exceeding ten years when issued, generally vest immediately. The exercise price of each option equals the market price of the Company's stock on the date of grant.

A summary of the status of the Company's stock option plan and changes during the year is presented below.

|                                | Year Ended December 31 |                              |                  |                              |
|--------------------------------|------------------------|------------------------------|------------------|------------------------------|
|                                | 2001                   |                              | 2000             |                              |
|                                | Shares                 | Weighted Avg. Exercise Price | Shares           | Weighted Avg. Exercise Price |
| Outstanding, beginning of year | 2,261,045              | \$ 0.93                      | 1,945,876        | \$ 1.00                      |
| Granted                        | 992,060                | 0.36                         | 522,000          | 0.84                         |
| Cancelled                      | -                      | -                            | (206,831)        | 1.35                         |
| Outstanding, end of year       | <u>3,253,105</u>       | \$ 0.76                      | <u>2,261,045</u> | \$ 0.93                      |

The following information applies to options outstanding and exercisable at December 31, 2001:

| Options Outstanding and Exercisable |                    |                                          |                              |
|-------------------------------------|--------------------|------------------------------------------|------------------------------|
| Range of Exercise Prices            | Number Outstanding | Weighted Avg. Remaining Contractual Life | Weighted Avg. Exercise Price |
| \$ 0.36 to \$ 0.70                  | 2,037,060          | 6.9 years                                | \$ 0.44                      |
| 1.03 to 1.30                        | 1,100,233          | 4.4                                      | 1.21                         |
| 2.00 to 2.15                        | <u>115,812</u>     | 1.2                                      | 2.07                         |
| 0.48 to 2.15                        | <u>3,253,105</u>   |                                          |                              |

## 13. Commitments

The Company has entered into agreements to lease its plant, warehouse, office premises, vehicles and equipment for various periods until 2016. The annual rent of premises consists of a minimum rent plus realty taxes, insurance and common area maintenance costs. Minimum rent payable for premises, vehicles and equipment in aggregate and for each of the next five years is as follows:

|            |                      |
|------------|----------------------|
| 2002       | \$ 2,653,355         |
| 2003       | 2,722,188            |
| 2004       | 2,618,176            |
| 2005       | 2,239,985            |
| 2006       | 2,220,706            |
| Thereafter | <u>16,566,976</u>    |
|            | \$ <u>29,021,386</u> |

## 14. Financial instruments

### Credit risk

Concentrations of credit risk with respect to receivables are limited due to the large number of customers and their dispersion across both geographical areas and industry segments.

# Notes to the Consolidated Financial Statements

## 14. Financial instruments (continued)

### Foreign currency risk

The following factors create significant exposure with regard to fluctuations in exchange rates:

- approximately 11% (2000 – 19%) of sales are denominated in US dollars
- approximately 87% (2000 – 86%) of long term debt is denominated in US dollars
- a subsidiary of the Company operates in the United States

The Company attempts, as much as possible, to match cash outlays with cash inflows in the same currency. The Company's revenues denominated in US dollars generate sufficient US dollars to cover its annual US dollar debt payments and act as a hedge against exchange rate fluctuations. Any surplus US cash is first reserved for anticipated payables in US dollars, and any excess is converted into Canadian dollars.

### Fair values

The following table presents the carrying amounts and fair values of the Company's financial instruments. Fair value is defined by the Canadian Institute of Chartered Accountants as the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties, who are under no compulsion to act.

|                           | <u>2001</u>                |                       | <u>2000</u>                |                       |
|---------------------------|----------------------------|-----------------------|----------------------------|-----------------------|
|                           | <u>Carrying<br/>Amount</u> | <u>Fair<br/>Value</u> | <u>Carrying<br/>Amount</u> | <u>Fair<br/>Value</u> |
| <b>Assets</b>             |                            |                       |                            |                       |
| Cash and cash equivalents | \$ 537,260                 | \$ 537,260            | \$ -                       | \$ -                  |
| Receivables               | 24,792,656                 | 24,792,656            | 26,472,277                 | 26,472,277            |
| Income taxes receivable   | -                          | -                     | 95,738                     | 95,738                |
| <b>Liabilities</b>        |                            |                       |                            |                       |
| Bank indebtedness         | -                          | -                     | 5,288,287                  | 5,288,287             |
| Payables and accruals     | 14,897,490                 | 14,897,490            | 15,605,042                 | 15,605,042            |
| Income taxes payable      | 532,269                    | 532,269               | -                          | -                     |
| Long term debt            | 28,770,999                 | 28,154,000            | 32,374,233                 | 31,448,000            |
| Convertible debentures    | 3,413,207                  | 3,413,207             | 3,282,779                  | 3,282,779             |

The following summarizes the major methods and assumptions used in estimating fair values of financial instruments.

Short term financial instruments are valued at their carrying amounts, which are reasonable estimates of fair value due to the relatively short period to maturity. This approach applies to cash and cash equivalents, receivables, income taxes receivable, bank indebtedness, payables and accruals, income taxes payable and the convertible debentures.

Rates currently available to the Company for long term borrowing with similar terms and remaining maturities are used to estimate the fair value of existing borrowings by calculating the present value of expected cash flows.



# Notes to the Consolidated Financial Statements

## 15. Interest other than imputed amounts

|                             | <u>2001</u>         | <u>2000</u>         |
|-----------------------------|---------------------|---------------------|
| Interest on long term debt  | \$ 1,863,284        | \$ 2,369,846        |
| Interest on short term debt | <u>461,683</u>      | <u>469,295</u>      |
|                             | <u>\$ 2,324,967</u> | <u>\$ 2,839,141</u> |

## 16. Discontinued operations

On December 15, 2001, management of the Company decided to discontinue the fulfillment and packaging operations of its subsidiary. Subsequent to year end, effective January 1, 2002, the operating assets were sold. Sales applicable to and net loss from discontinued operations are as follows:

|                                                       | <u>2001</u>           | <u>2000</u>          |
|-------------------------------------------------------|-----------------------|----------------------|
| Sales                                                 | \$ 2,575,907          | \$ 5,339,199         |
| Loss from operations                                  | (1,688,181)           | (2,245,780)          |
| Estimated remaining loss from discontinued operations | <u>(360,284)</u>      | <u>-</u>             |
| Net loss from discontinued operations                 | <u>\$ (2,048,465)</u> | <u>\$(2,245,780)</u> |

The estimated remaining loss from discontinued operations is calculated as follows:

|                                                                     |                     |
|---------------------------------------------------------------------|---------------------|
| Proceeds                                                            | \$ 762,591          |
| Net book value of assets sold – capital assets and inventories      | <u>703,938</u>      |
| Gain on disposal                                                    | 58,653              |
| Estimated operating loss from December 15, 2001 to date of disposal | <u>(418,937)</u>    |
|                                                                     | <u>\$ (360,284)</u> |

The inventories were sold for cash. The capital assets were sold in exchange for a promissory note denominated in U.S. dollars with the following terms:

- interest free to August 31, 2002; 5¼% thereafter
- repayable at US\$5,328 plus interest from September 2002 to February 2003; US\$10,672 plus interest from March 2003 to February 2004; US\$35,000 plus interest from March 2004 to February 2005; balance due February 2005.

The subsidiary also agreed to loan an additional US\$43,677 to cover certain expenditures and to guarantee the purchaser's line of credit up to US\$100,000 for one year.

As additional consideration, the subsidiary received a 19% interest in the purchaser's company that will reduce to 11% if certain conditions are met. The terms of the agreement provide for preferred distributions to the subsidiary equal to 5% of annual revenues in excess of US\$2,500,000 to a

maximum of US\$362,000. Given the uncertainty of realizing any amounts related to the preferred distributions, no amount has been recognized in the financial statements and any future amounts will be recognized as they become receivable. The 19% interest received in the purchaser's company has been assigned no value and will be accounted for as a portfolio investment.

The net loss from discontinued operations has not been tax affected since a full valuation allowance has been taken against the benefit of the loss carryforwards.

Assets and liabilities of the discontinued operations included in the balance sheet are as follows:

|                                                         | <u>2001</u>       | <u>2000</u>       |
|---------------------------------------------------------|-------------------|-------------------|
| Cash and cash equivalents                               | \$ 333,491        | \$ -              |
| Receivables                                             | 178,964           | 1,025,387         |
| Inventories                                             | 106,428           | 164,417           |
| Prepays                                                 | 14,600            | 13,746            |
| Capital assets                                          | 969,823           | 1,235,016         |
| Goodwill                                                | <u>-</u>          | <u>221,437</u>    |
|                                                         | <u>1,603,306</u>  | <u>2,660,003</u>  |
| Cash and cash equivalents netted with bank indebtedness | -                 | 321,045           |
| Payables and accruals                                   | (324,552)         | (1,865,623)       |
| Current portion of long term debt                       | (213,733)         | (193,539)         |
| Long term debt                                          | <u>(162,356)</u>  | <u>(354,000)</u>  |
|                                                         | <u>\$ 902,665</u> | <u>\$ 567,886</u> |

## 17. Earnings per share

|                                                                            | <u>2001</u>         | <u>2000</u>        |
|----------------------------------------------------------------------------|---------------------|--------------------|
| Earnings from continuing operations – basic and diluted                    | <u>\$ 5,510,842</u> | <u>\$2,804,085</u> |
| Weighted average number of common shares outstanding during the year       | 28,659,913          | 28,023,419         |
| Dilutive impact of the following:                                          |                     |                    |
| 992,060 stock options with an exercise price of \$0.36                     | 109,565             | -                  |
| 805,000 stock options with an exercise price of \$0.48                     | -                   | 130,065            |
| 100,000 stock options with an exercise price of \$0.50                     | -                   | 5,277              |
| 2% Series B Second Preferred Shares                                        | <u>-</u>            | <u>165,078</u>     |
| Denominator used for diluted earnings per share from continuing operations | <u>28,769,478</u>   | <u>28,323,839</u>  |

The convertible debentures (see Note 10) were not included in the computation of diluted earnings per share as they are anti-dilutive.



# Notes to the Consolidated Financial Statements

## 17. Earnings per share (continued)

The stock options (see Note 12(f)), other than the items adjusted above, were not included in the computation of diluted earnings per share as they are anti-dilutive.

|                                                                                                                           |                      |                     |
|---------------------------------------------------------------------------------------------------------------------------|----------------------|---------------------|
| Earnings before interest, depreciation and amortization, gain on sale of option, income taxes and discontinued operations | <b>\$ 16,637,437</b> | <b>\$13,896,186</b> |
| Amount per share – basic                                                                                                  | <b>\$ 0.58</b>       | <b>\$ 0.50</b>      |
| Amount per share – diluted                                                                                                | <b>\$ 0.58</b>       | <b>\$ 0.49</b>      |

## 18. Supplemental cash flow information

|                                               | <b>2001</b>         | <b>2000</b>          |
|-----------------------------------------------|---------------------|----------------------|
| Change in non-cash operating working capital: |                     |                      |
| Receivables                                   | <b>\$ 923,843</b>   | <b>\$(2,800,921)</b> |
| Income taxes receivable                       | <b>95,738</b>       | <b>549,755</b>       |
| Inventories                                   | <b>55,086</b>       | <b>(1,143,695)</b>   |
| Prepays                                       | <b>181,891</b>      | <b>(78,681)</b>      |
| Payables and accruals                         | <b>669,463</b>      | <b>3,346,304</b>     |
| Income taxes payable                          | <b>532,269</b>      | <b>-</b>             |
| Deferred revenue                              | <b>1,857,284</b>    | <b>277,679</b>       |
|                                               | <b>\$ 4,315,574</b> | <b>\$ 150,441</b>    |
| Interest paid                                 | <b>\$ 2,324,967</b> | <b>\$ 2,839,141</b>  |
| Net income taxes paid including instalments   | <b>\$ 1,417,941</b> | <b>\$ 160,823</b>    |

During 2001, the Company acquired prepress and plant equipment costing \$18,890 by means of capital leases.

During 2000, the following non-cash investing and financing activities were transacted by the Company:

- Issued 1,000,000 common shares for \$340,000 in exchange for promissory notes from employees.
- Acquired prepress and plant equipment costing \$7,353,239 by assuming long term debt of \$5,828,239, after netting a deposit of \$1,525,000 against the purchase price. In addition, \$135,924 of imputed interest related to the debt was capitalized to the cost of the asset.
- Partially settled an obligation related to the acquisition of prepress and plant equipment by netting a receivable of \$580,000 against the obligation.
- In lieu of cash, took back a long term note receivable of \$120,000 in exchange for proceeds of \$104,000 on the sale of prepress and plant equipment and receivables of \$16,000.

## 19. Related party transactions

During the year, a subsidiary of the Company sold its option to purchase a building that was vacated during the year to a company controlled by an officer for net proceeds of \$545,000, which approximates the market value of the option.

During the year, the Company purchased machinery for \$378,000 from a company controlled by officers of the Company. The price paid approximates the machinery's market value.

Administrative expenses include rent expense of \$453,501 (2000 - \$336,000) charged by companies in which certain directors and officers have controlling interests. The rent charged approximates prices and credit terms offered to unrelated parties, other than free rent provided for six months in 2000, which had previously been charged at \$22,500 per month.

## 20. Segmented information

The Company has two reportable segments: commercial printing and direct mail. The commercial printing segment operates a full-service commercial printing and visual-communications business, delivering a comprehensive range of prepress offerings, sheet-fed printing, heat-set web printing, finishing services and bindery services. The direct mail segment is a full service provider of direct marketing solutions. Prior to December 15, 2001, the Company operated within another business segment, fulfillment, which provided order fulfillment, packaging and distribution services. The operating results of this segment have been netted and are disclosed separately on the statement of earnings as discontinued operations.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on profit or loss from operations before income taxes, excluding non-recurring gains and losses and amortization of deferred foreign exchange gains and losses.

Intersegment sales and transfers are accounted for as if the sales or transfers were to third parties, that is, at current market prices.

The Company's reportable segments are strategic business segments that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The following table presents information about reportable segment profit and segment assets:





# Notes to the Consolidated Financial Statements

## 20. Segmented information (continued)

|                                                                       | 2001              |                  |                                      |                    |
|-----------------------------------------------------------------------|-------------------|------------------|--------------------------------------|--------------------|
|                                                                       | Printing          | Direct Mail      | Discontinued Operations<br>(Note 16) | Total              |
| Sales to reportable segments                                          | \$ 112,322,776    | \$ 8,666,766     | \$ -                                 | \$ 120,989,542     |
| Intersegment sales                                                    | <u>13,900,332</u> | <u>195,525</u>   | -                                    | <u>14,095,857</u>  |
| Sales to external customers                                           | <u>98,422,444</u> | <u>8,471,241</u> | -                                    | <u>106,893,685</u> |
| Gross profit                                                          | 27,377,034        | 3,769,185        | -                                    | 31,146,219         |
| Interest other than imputed amounts                                   | 2,294,524         | 30,443           | -                                    | 2,324,967          |
| Imputed interest                                                      | 303,321           | -                | -                                    | 303,321            |
| Earnings before income taxes, discontinued operations and other items | 5,092,621         | 2,221,304        | -                                    | 7,313,925          |
| Segment assets                                                        | 72,235,547        | 4,804,431        | 1,603,306                            | 78,643,284         |
| Depreciation of capital assets                                        | 5,962,591         | 400,068          | -                                    | 6,362,659          |
| Cash paid for capital assets                                          | 3,392,293         | 64,399           | -                                    | 3,456,692          |

|                                                                       | 2000              |                  |                                      |                   |
|-----------------------------------------------------------------------|-------------------|------------------|--------------------------------------|-------------------|
|                                                                       | Printing          | Direct Mail      | Discontinued Operations<br>(Note 16) | Total             |
| Sales to reportable segments                                          | \$ 100,894,452    | \$ 5,063,966     | \$ -                                 | \$ 105,958,418    |
| Intersegment sales                                                    | <u>12,833,780</u> | <u>554,390</u>   | -                                    | <u>13,388,170</u> |
| Sales to external customers                                           | <u>88,060,672</u> | <u>4,509,576</u> | -                                    | <u>92,570,248</u> |
| Gross profit                                                          | 25,451,832        | 2,080,201        | -                                    | 27,532,033        |
| Interest other than imputed amounts                                   | 2,747,989         | 91,152           | -                                    | 2,839,141         |
| Imputed interest                                                      | (299,262)         | -                | -                                    | (299,262)         |
| Earnings before income taxes, discontinued operations and other items | 4,458,000         | 370,598          | -                                    | 4,828,598         |
| Segment assets                                                        | 77,547,128        | 2,303,868        | 2,660,003                            | 82,510,999        |
| Depreciation of capital assets                                        | 5,850,403         | 367,784          | -                                    | 6,218,187         |
| Cash paid for capital assets                                          | 2,745,947         | 93,008           | -                                    | 2,838,955         |
| Significant non-cash items                                            |                   |                  |                                      |                   |
| Equipment acquired for debt                                           | 7,353,239         | -                | -                                    | 7,353,239         |
| Netting of receivable with payable                                    | 580,000           | -                | -                                    | 580,000           |

## Geographic information

The following table provides information about geographic sales, capital assets and goodwill.

|               | Sales                 | 2001<br>Capital<br>Assets | Goodwill    |
|---------------|-----------------------|---------------------------|-------------|
| Canada        | \$ 95,584,852         | \$ 44,044,407             | \$ -        |
| United States | <u>11,308,833</u>     | <u>969,823</u>            | -           |
|               | <u>\$ 106,893,685</u> | <u>\$ 45,014,230</u>      | <u>\$ -</u> |

|               | Sales                | 2000<br>Capital<br>Assets | Goodwill          |
|---------------|----------------------|---------------------------|-------------------|
| Canada        | \$ 75,377,293        | \$ 46,939,392             | \$ 168,645        |
| United States | <u>17,192,955</u>    | <u>1,235,016</u>          | <u>221,437</u>    |
|               | <u>\$ 92,570,248</u> | <u>\$ 48,174,408</u>      | <u>\$ 390,082</u> |



# Notes to the Consolidated Financial Statements

## 20. Segmented information (continued)

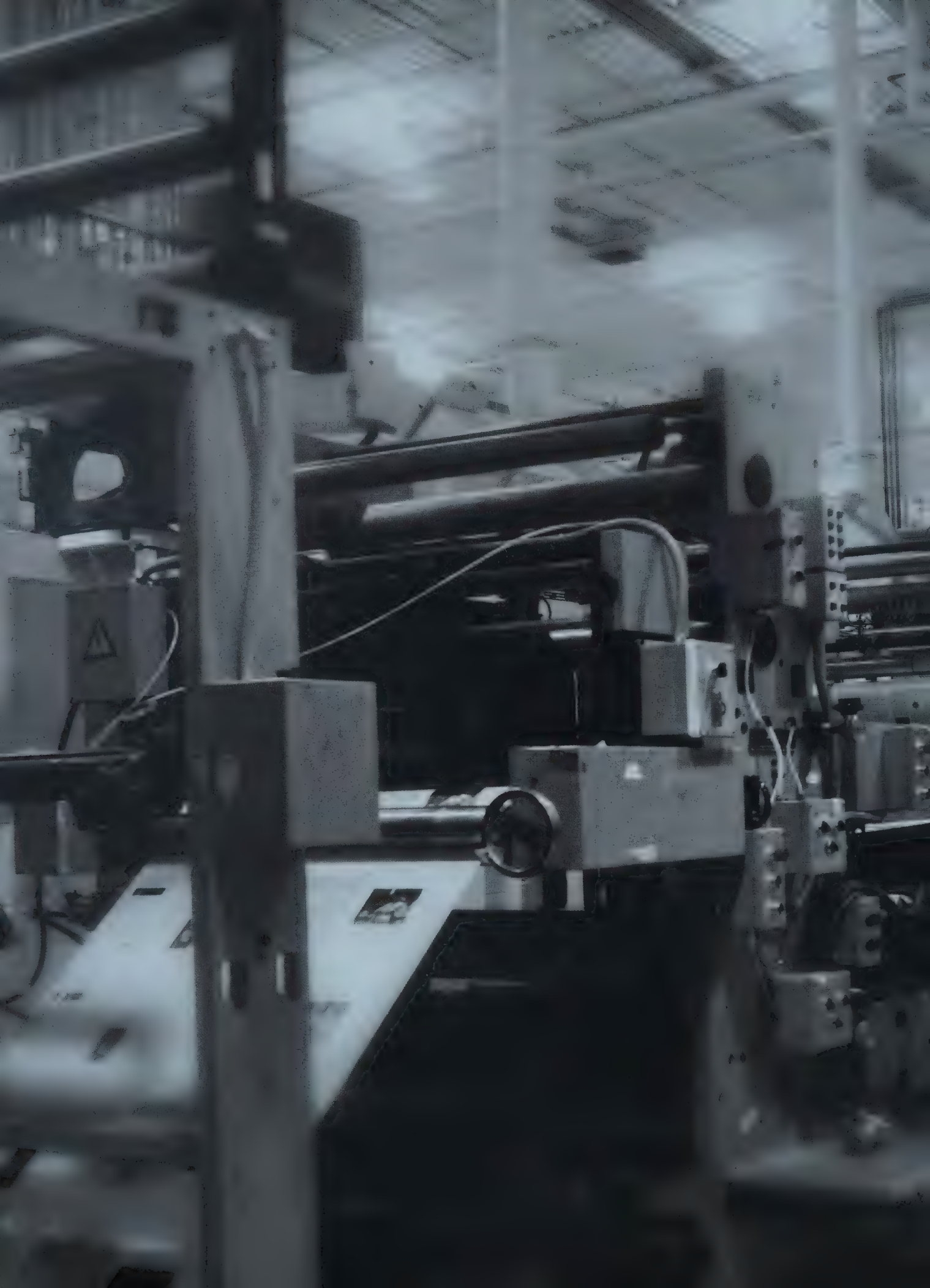
### Major customer

Sales to one customer of the Company's commercial printing segment represent 10.4% (2000 – 10.8%) of the Company's total sales.

## 21. Comparative figures

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.





# PLM GROUP 2001 ANNUAL REPORT TO SHAREHOLDERS

## SELECTED FINANCIAL DATA

For the year ended December 31

|                                                | 2001       | 2000      | 1999      | 1998      | 1997      |
|------------------------------------------------|------------|-----------|-----------|-----------|-----------|
| <b>From Continuing Operations (in \$000's)</b> |            |           |           |           |           |
| <b>OPERATIONS</b>                              |            |           |           |           |           |
| Sales                                          | \$ 106,894 | \$ 92,570 | \$ 85,145 | \$ 86,462 | \$ 60,712 |
| EBITDA                                         | 16,637     | 13,896    | 11,546    | 12,016    | 9,902     |
| Depreciation and Amortization                  | 6,695      | 6,527     | 5,832     | 4,345     | 2,635     |
| Earnings before taxes                          | 7,394      | 4,618     | 2,349     | 4,822     | 5,850     |
| Net earnings                                   | 5,511      | 2,804     | 969       | 3,016     | 3,434     |
| Cash flow from operations                      | 16,666     | 10,521    | 9,362     | 8,222     | 2,580     |
| <b>FINANCIAL POSITION</b>                      |            |           |           |           |           |
| Working capital                                | \$ 2,171   | \$ 3,879  | \$ 7,364  | \$ 6,628  | \$ 5,520  |
| Capital Assets                                 | 45,014     | 48,174    | 42,941    | 44,470    | 41,834    |
| Total Assets                                   | 78,643     | 82,511    | 74,292    | 79,633    | 72,546    |
| Long-term debt                                 | 22,255     | 25,992    | 25,145    | 31,046    | 29,515    |
| Shareholders' Equity                           | 21,060     | 17,598    | 17,326    | 17,362    | 13,502    |
| <b>PER SHARE DATA</b>                          |            |           |           |           |           |
| Net Earnings (basic)                           | 19 cents   | 10 cents  | 3 cents   | 13 cents  | 18 cents  |
| Net Earnings (diluted)                         | 19 cents   | 10 cents  | 3 cents   | 10 cents  | 12 cents  |
| Cash Flow from operations (diluted)            | 58 cents   | 37 cents  | 26 cents  | 31 cents  | 9 cents   |
| <b>KEY DATA</b>                                |            |           |           |           |           |
| Net earnings as percentage of sales            | 5.20%      | 3.02%     | 1.10%     | 3.50%     | 5.70%     |
| Return on average shareholders' equity         | 28.50%     | 16.10%    | 5.60%     | 19.50%    | 30.30%    |
| Current ratio                                  | 1.08:1     | 1.14:1    | 1.26:1    | 1.32:1    | 1.26:1    |

## SELECTED QUARTERLY FINANCIAL DATA

| 2001(unaudited)                                | March     | June      | September | December  |
|------------------------------------------------|-----------|-----------|-----------|-----------|
| <b>From Continuing Operations (in \$000's)</b> |           |           |           |           |
| Sales                                          | \$ 31,212 | \$ 25,091 | \$ 23,980 | \$ 26,611 |
| EBITDA                                         | 5,420     | 3,287     | 3,388     | 4,542     |
| Earnings before taxes                          | 2,821     | 837       | 1,357     | 2,379     |
| Net earnings                                   | 1,577     | 546       | 988       | 2,400     |
| Discontinued operations                        | -352      | -351      | -374      | -971      |
| Net earnings per share<br>basic and diluted    | 6 cents   | 2 cents   | 3 cents   | 8 cents   |
| 2000 (unaudited)                               | March     | June      | September | December  |
| <b>From Continuing Operations (in \$000's)</b> |           |           |           |           |
| Sales                                          | \$ 22,582 | \$ 20,166 | \$ 24,578 | \$ 25,244 |
| EBITDA                                         | 2,899     | 2,178     | 3,323     | 5,496     |
| Earnings before taxes                          | 549       | -136      | 954       | 3,251     |
| Net earnings                                   | 295       | -80       | 511       | 2,078     |
| Net earnings per share<br>basic and diluted    | 1 cent    | 0 cents   | 2 cents   | 7 cents   |





# Shareholder INFORMATION

For the year ended December 31

## STOCK LISTING:

*PLM Group Ltd. common shares are listed on The Toronto Stock Exchange under the symbol PGL.*

## NOTICE OF MEETING:

*The Annual and Special Meeting of Shareholders will be held on: Friday, June 21, 2001, at 9:30 a.m. at The Toronto Stock Exchange Auditorium, Exchange Tower, 130 King Street West, Toronto, Ontario, M5H 2M9*

## ANNUAL INFORMATION FORM:

*The Company's Annual Information Form may be obtained without charge by writing to: Peter Bradley, Chief Financial Officer, PLM Group Ltd., 210 Duffield Drive, Markham, Ontario L6G 1C9*

## TRANSFER AGENT AND REGISTRAR:

*Computershare Trust Company of Canada, Suite 600, 530-8th Avenue S.W., Calgary, Alberta T2P 3S8*

## AUDITORS:

*Grant Thornton LLP, Markham, Canada*

## LEGAL COUNSEL:

*Gowling Lafleur Henderson LLP, Toronto, Canada*

## CORPORATE OFFICE:

*PLM Group Ltd., 210 Duffield Drive, Markham, Ontario L6G 1C9*

## SHAREHOLDER CONTACT:

*Shareholders who wish to receive quarterly and annual results directly are invited to contact: Peter Bradley, Chief Financial Officer in writing or at (416) 848-8500.*

## WEBSITE:

**[www.plmgroup.com](http://www.plmgroup.com)**





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## DIRECTORS OF PLM GROUP

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